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UNITED STATES DEPARTMENT OF AGRICULTURE
Bureau of Agricultural Economics

Ten Years of Rural Rehabilitation In The United States

Part II (p. 150-299)

Washington, D. C.
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courage to risk their own prestige if a family showed need of working things out in their own way, humility to admit mistakes, and patience to experiment and wait for results." 40/

Problems.- Lack of sources from which to recruit personnel trained to meet the needs of a rehabilitation program has been one of the agencies' problems. In-service training has been resorted to as a solution.

Turn-over in personnel, especially during the war is another problem. For example, in a 13-county area in 1 region during the last half of 1942 only 1 office of the 13 had no change in supervisory personnel, only 3 of the 13 had the same supervisors in charge throughout the period, 2 offices had 2 changes in the supervisor in charge and one had 3 changes; 1 office had a complete turn-over in supervisory personnel and none of the new people had had more than 4 months of previous experience with the agency.

In some instances lack of cooperation and poor working relations between the farm and home supervisors has meant a failure to discuss common problems and work out well-integrated solutions. Lack of team-work is sometimes due to incompatibilities of the personnel involved, sometimes to failure to recognize the importance of working together in helping the families.

The supervisor who is trying to rehabilitate families in a community that is essentially unfriendly to the idea of an improvement in the status of such families has a peculiarly difficult problem. If he identifies himself with the controlling group, he is not likely to accept fully the basic assumptions underlying the rehabilitation program. If he belongs to this group and does accept the assumptions, he probably does not understand the implications for the dominant social group, since the achievement of the objectives of rehabilitation might undermine this group. In this latter belief rests the basic opposition to rehabilitation programs. The supervisor who accepts the assumptions and the desirability of the objectives, may frequently find himself frustrated by the ways in which an unfriendly or hostile surrounding culture may thwart his efforts to help the families.

Costs of Supervision

Because of the multiple functions performed by county supervisory personnel and the division of various functions among the several administrative levels, there is some difficulty in ascertaining the costs to be assessed to supervision. Henry A. Wallace, Secretary of Agriculture, in testimony before the Senate Appropriations Committee in 1940, said rehabilitation — counting all losses on loans, the cost

40/ Ibid., p. 5. Lelia C. Ogle, Chief of the FSA home management section, has attributed the following major characteristics to the ideal home management supervisor: Good address, vitality, courage, assumption of responsibility, enthusiasm, sympathy, loyalty, sincerity, initiative, and progressiveness.

According to this [illegible] [illegible]

Training. — [illegible] [illegible]

Turn-over in personnel, especially during the [illegible] [illegible]

[illegible]

[illegible]

[illegible]

[illegible]

of supervision, and every other item of expense — cost only about $72 a year per family, compared with rural work relief costs of $350 and upward, and urban work relief of $800 per year. Testimony in 1943 was to the effect that supervision and servicing costs ran between $40 and $50 per family annually. 41/

Considering only supervision of families, with the case loads and salaries prevailing during the first half of 1943, the annual cost per active case appears to have been from $10 to $14 at the most. This estimate makes no allowance for the supervision of cooperative associations participated in by non-FSA families. The lower figure assumes both the RR and HM supervisors spent half their time on duties other than supervision of families; the higher figure assumes only the RR supervisor spent half his time at other duties, while the HM person devoted all her time to supervisory functions. The estimate, with these assumptions, is exaggerated to some extent because it uses the typical salary of the county supervisor, $2,400, and of the home supervisor, $1,920, although in fact part of the job is done by the lower-salaried assistants. Further, the salary level was higher during the first half of 1943 than during early years of the program. Only county personnel costs, not travel or per diem, are included. For a borrower on the program 5 years, the average for those still active in September 1943, the total personnel costs of supervision may be roughly judged to run from $45 to $65.

Principles of Supervision

The following generalizations are tentatively offered concerning supervision of the kind which implements the rehabilitation of the borrower:

1. A supervisor must reject the view that the status of the borrower is inherent and must accept the assumption that the basic resources for rehabilitation rest within the people themselves and therefore his function is to help to develop these resources.

2. A supervisor must interpret the borrower to the community and the community to the borrower.

3. The lower the status and the more complex the problems of the family, the greater the need for the individualized method of supervision.

4. A balancing of the roles of banker, farm and home management specialist, case worker, and group organizer is necessary on the part of the supervisor.

5. Families who wish to qualify for aid should understand the program before they decide to participate. They should know what services will be available under the program, how such services may be utilized to meet their needs, and what will be expected of them.

41/ Hearings...Pursuant to H. R. 119, Part 1, p. 207.

[illegible]

[illegible]

[illegible]

[illegible]

1. [illegible]

2. [illegible]

3. [illegible]

4. [illegible]

5. [illegible]

[illegible]

6. It is essential to the success of the family that they participate to the maximum in the formulation of plans for their rehabilitation, that the goals then set be kept within their ability to achieve and, if possible, be built around some particular interest of the family.

7. Families who have lived under depressed circumstances and in inferior status for a long time are more likely to need continued supervision than those whose plight is of recent origin. The fears of families based on past experiences must be allayed and their confidence won before the educational process in their rehabilitation can be successfully instituted.

8. Observations indicate that supervision or educational guidance should be available to families but never forced upon them.

9. The lower the level of the families, the greater the need for training in simple farm and home tasks ordinarily taken for granted by better educated and equipped farm people.

10. Along with competence in farm and home management techniques and administrative routines, supervisors need to be skilled in dealing with personality problems and social relationships.

11. Frequent turn-over of supervisory personnel retards the rehabilitation process.

12. The supervisory relationship is carried on within a cultural situation which influences the type and degree of supervision the borrower will accept, the supervisor will give, and the community will condone.

Problems and Issues

Among the problems of a supervisory nature which have been faced and not solved in a completely satisfactory way may be included: The association of supervision with a relief status; the possessive attitude of some supervisors which tends to help set the borrowers apart from the rest of the community; administrative action which apparently judges supervisors by loan activity and collections rather than by the more intangible educational type of supervision; the tendency of some supervisors to over-emphasize a particular role or a particular technique or a given enterprise; the difficulty of obtaining supervisors who understand and accept the basic assumptions and objectives of rehabilitation; providing training for supervisors in supervisory skills and techniques, including those of human relationships, or finding personnel already having the desired training; and the lack of objective appraisal of the effectiveness of various supervisory techniques.

The basic question from the standpoint of future public policy appears to be whether the type of supervision is to be provided which will best help families to achieve the objectives of rehabilitation. Does the Nation want to offer high-risk credit without underwriting it by supervision?

Another question that has been raised is the length of time families should be allowed to have supervisory assistance; how long, in view of limited personnel and many needy families, is supervisory assistance warranted for a particular family?

Still another question is whether supervisory guidance should be available to families who are unwilling to obtain more credit or who can be kept from needing credit by the rehabilitation type of supervision. Should a loan be a condition for supervision?

CHAPTER 8

CREDIT *

Credit extended by the rehabilitation program has been of a high-risk character. Inability to get credit from other sources was one of the eligibility requirements for receiving a standard loan. Without resources, families could not support themselves from farming but the generally depleted or inadequate resources could not be built up without credit.

Credit policies during the initial experiment with rehabilitation under FERA contrast sharply with those under the Resettlement Administration and the Farm Security Administration. Credit has been extended to standard borrowers directly through the standard loan. Until Congress changed this, indirect financial aid was given through loans to cooperative associations of which borrowers were members. Standard borrowers, sometimes only in limited areas, have also been able to get special types of loans at various times such as the special real estate (later farm and home improvement and still later farm enlargement and development) loan, the club loan (for children), and the ACP loan. Before being a standard borrower a family may have received an emergency (nonstandard) loan. In some circumstances, grants were given instead of additional loans.

Credit Under the FERA

Policies.- Credit was extended through the advance of money, through lease, or through rental of capital goods, or more typically the furnishing of goods or services for which the client was charged. Credit in the form of groceries, feed, fertilizer, work stock, livestock and

* Prepared by Olaf F. Larson and Paul J. Jehlik, Bur. of Agr. Econ., U. S. Dept. of Agr.

other goods rather than money was particularly the practice in the South. 1/ At this time there was no distinction between what were later called "grants" and various categories of loans.

Although no specific limitation was put on the amount of credit to be advanced a family, the influence was to restrict the aid to that required for a subsistence type of self-support. In reply to a query, Westbrook said, "Our policy is to assist individual rehabilitation clients in maintaining up to 10 units of livestock as a part of his subsistence program (1 cow, 1 horse, 2 young stock, 5 hogs, 7 sheep, or 100 chickens equal 1 unit). In general, 10 units should provide the necessary work animals, cows, pigs, chickens, etc. for subsistence purposes....In our financial assistance to rural rehabilitation clients we cannot go beyond what may be described as the minimum type of set-up that will enable a family to be self-supporting." 2/

Except for the prohibition that a State corporation could not loan funds with which to repay a client's debt, 3/ loans could be made for a wide variety of capital and subsistence goods. Capital or "rehabilitation" goods included the "purchase, rental, construction, or repairs of land, buildings, home equipment, livestock, work animals, feed, seed, fertilizer, equipment, farm tools, or machinery and any other capital outlays required...." 4/ Subsistence goods included "cash and/or the types of services or commodities which are usually issued in the form of direct relief to general relief cases. Such commodities are food, clothing, fuel, medical care, or any other necessities of life...."

Advances tended to be small and frequent rather than large enough to cover needs for a long period. During the 15 months of FERA, the 397,000 cases received a total of 1,269,525 advances. This frequency may be due to the relief nature of the early program. Many of the advances were equivalent to direct relief or what were later called grants and were therefore doled out in small amounts.

The period of repayment for a loan was based upon the purpose for which the advance was made. National policy stipulated land was to be paid for in not to exceed 35 years; for equipment and improvements the period was the useful life of the item; for livestock, 3 years;

1/ See, for example, "Rehabilitation Makes Progress in Alabama," Extension Service Review, 5:104, July 1934.
2/ Letter, Lawrence W. Westbrook to George Susens, Acting Director, Emergency Crop and Feed Loan Section, Farm Credit Admin., U. S. Dept. of Agr., Washington, D. C. Nov. 20, 1934.
3/ Letter, Lawrence W. Westbrook to all State Emergency Relief Administrators, Regional Advisers of Rural Rehabilitation, March 9, 1935, FERA RD-30.
4/ Letter, Lawrence W. Westbrook and Corrington Gill to all State Emergency Relief Administrators, Subject: Rural Rehabilitation Program: Financial Policies and Procedures, Dec. 26, 1934, FERA RD-22a.

for subsistence goods and items consumed within a year, 1 year. 5/ In practice, the terms of repayments varied by States and even counties. 6/ If goods such as cows, chickens and pigs were leased or rented, there was to be a written agreement to return the same items or others of like value at the end of the lease period. 7/

At first, repayments of loans could be in cash, work, or kind. In December 1934 change was made to confine repayments to cash or credit certificates, the latter being paid or issued by a State rehabilitation corporation for work done on a self-liquidating project, the benefits of which accrued to the corporation. 8/ This change was made because it was found not practicable to accept payments in kind since the Government "lacked capacity to function as a middleman and move perishable farm commodities from one place to another and get them into the hands of consumers who needed them." 9/

First announcement of the program said no interest would be charged. However, in some States no interest was to be charged only during the first year; in others interest was to be charged only after the loan matured. 10/ Where charged, the interest was in accord with local rates. The advances were secured by notes, first liens on land, chattels, and crops.

Amount and purpose of loans.- Under FERA during the April 1934 - June 1935 period, advances totaled $49,376,000. 11/ Nearly half of the amount was disbursed in 6 Southern States — Alabama, Arkansas, Georgia, Louisiana, Mississippi, and Texas. Loans averaged but $124 per borrower, $39 per individual advance.

Subsistence goods accounted for 29 percent of the total advanced, "rehabilitation" goods for 71 percent. In 4 States — Kansas, Louisiana, South Dakota, and Wyoming — subsistence goods totaled more than rehabilitation goods. In Alabama and Colorado the two categories were about equal in amount.

During 1934, subsistence goods amounted to half the advances but during 1935 they accounted for but one-fourth the total.

Of the "rehabilitation" advances, three-fifths went for livestock and feed, one-fifth for seed and fertilizer, one-tenth for farm tools and equipment, and the remaining one-tenth for miscellaneous items. 12/ The type of capital goods varied from one area to another with the type of farming. Mules or oxen, seed, and fertilizer were common in the cotton States. Horses, cattle, and livestock feed were frequently advanced in the Middle West. The variety of capital goods distributed

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5/ Ibid.
6/ Asch and Mangus, op.cit., p. 21.
7/ A Typical Rural Rehabilitation Program, FERA, Washington, p. 4.
8/ Letter, Westbrook and Gill, op.cit.
9/ Maris, op.cit., p. 11.
10/ Asch and Mangus, op.cit., p. 21.
11/ Whiting, op.cit., p. 69.
12/ Ibid.

in lieu of money is illustrated by the following: 13/

In Arizona, 25,000 chicks 6 to 8 weeks old were ordered for delivery to rehabilitation clients. In Alabama, the State Director insisted on furnishing steers rather than mules for work. The Missouri ERA bought 166,000 acres of corn fodder, 300,000 bushels of corn, and selected 6,000 cows from drought cattle. In Louisiana, grape plants were distributed. Half of the first accepted 4,500 Mississippi families received mules, 18 percent received chickens, 18 percent cows, and 10 percent pigs.

Repayments.- Few families aided under the FERA program had completed a full crop year before rehabilitation was transferred to the Resettlement Administration and therefore they had had little opportunity to make repayments from the sale of crops. Some $2,137,100 had been repaid by June 30, 1935, leaving $47,248,900 to be collected by the successor administrations.

Two-thirds of the repayments were by credit for earnings on ERA work programs, 16 percent by cash, and 12 percent in kind. 14/ Cash payments were a larger proportion of the total in 1935 than in 1934. The first borrower to pay off his debt in Arkansas did so with 789 cans of wild plums. 15/

Official statements stressed the anticipation of full repayment on the advances. But in the agreements between agency personnel and families repayment was frequently predicted on repayment in kind or through works projects rather than by cash. With abandonment first of payment in kind and later of payment in work, many families had no way to pay cash, because the advance had been for subsistence rather than for building up a farm unit with debt-paying ability. Probably many families felt no obligation since the aid seemed no different than direct relief and the only method of making restitution within their means had been eliminated. By the end of March 1944 more than $20,000,000 of the amount owed to corporation funds had been "written off" and credited to repayments for accounting purposes. Out of this first experience grew more successful credit policies and practices.

Standard Rehabilitation Loans

Policies under RA.- Under both Resettlement and the FSA the practice of extending credit in the form of goods or services was discontinued. Repayments were made only in cash. Although crop liens and mortgages were taken, the general philosophy was that "the character and good

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13/ Selected from Rural Rehabilitation, vol. 1, no. 1, Nov. 15, 1934 and no. 2, Feb. 15, 1935.
14/ The Work of the Resettlement Administration in the Works Program, prepared by Conrad Taeuber, Works Progress Administration, Dec. 1, 1935, p. 13. Data given by Whiting, op.cit., p. 69, are presented on a different time basis but do not appear to agree precisely with Taeuber's report.
15/ Rural Rehabilitation Release No. 1, FERA, Nov. 1, 1934.

reputation of the recipient" 16/ were the best security. The idea that these were essentially "character" loans with repayment underwritten by sound farm and home planning and supervision was continued by the FSA.

By Executive Order No. 7143 on August 19, 1935 the President prescribed the rules governing the making of all loans by Resettlement under the Emergency Relief Appropriation Act of 1935. Interest was to be charged on all loans at rates fixed by the Administrator at not more than 5 nor less than 3 percent. The rates need not be uniform throughout the United States nor on loans of different classes within the same area. Loans could be made for a period not exceeding 40 years, the exact period to be based on (a) the use to which the proceeds were to be put, (b) the financial resources and earning capacity of the borrowers, and (c) — in the case of loans to finance the purchase of specific property — the probable rate of depreciation, the estimated life thereof, and the amount of the loan as compared with the purchase price. Unless otherwise authorized by the President, all loans for a period of 2 years or more were to provide for repayment in equal annual installments which, at the discretion of the Administrator, might include interest. However, in the case of loans made for a period of 5 years or more, and when the financial condition of the borrower justified, payment on the principal during the first 3 years did not need to be required. Upon default of principal or interest, the agency could (a) enforce payment by realizing upon the security and by legal proceedings, (b) extend the time of payment where circumstances justified, or (c) refinance the loan. Loans could be made to finance the purchase of farm land, necessary equipment and such other purposes as necessary to individuals or to bona fide agencies or cooperative associations. In the latter case there was to be supervision by the agency to protect the interests of members and no inequitable restriction upon membership or participation.

The provisions of this order were extended to funds from the Emergency Relief Appropriation Act of 1936 by Executive Order No. 7396 on June 22, 1936 and to funds from the comparable Act of 1937 by Executive Order No. 7649 on June 29, 1937.

In practice, a uniform interest rate of 5 percent was charged on standard loans, a rate continued by the FSA. Advances for nonrecoverable goods — such as farm supplies, minor repairs, rent, food, fuel, clothing, taxes, interest and livestock to be consumed or marketed in less than 2 years — were made for a period of 2 years or less. Loans for recoverable goods — such as work and breeding stock, construction and major repairs of farm buildings and fences, farm machinery, household equipment, and refinancing of chattel mortgages — were made for a period not exceeding 5 years.

While no maximum size of loan was established the policy was that they "cover the cost of the minimum of livestock, equipment, operating supplies, and subsistence required by the family to make a living in

16/ R. G. Tugwell, Administrator, Resettlement Administration, Address, Feb. 6, 1936.

keeping with acceptable standards and local conditions, and to pay operating expenses and repay the rehabilitation loans." 17/

Policies under the FSA.- Loan policies became more specific under the FSA and better adapted to the needs of low-income borrowers. The major shift in policy was to replace the principle that loans for recoverable goods could ordinarily be expected to be repaid within 5 years by equal annual installments with the principle that repayment should be based on (a) the planned ability of the borrower to repay and (b) the useful life of the items for which funds were borrowed; that is, annually recurring operating expenses, interest, and depreciation should be met annually, and lasting items should be amortized over a period of years. The maximum length of loan was moved up to 10 years rather than 5 years. Standard loans could not be made for the purchase of real estate as such a purpose came within the scope of the tenant purchase program.

The repayment periods adopted in 1938 for the various purposes of loans were as follows: 18/

Not in excess of 10 years for the following purposes:

1. To pay advance rental on agricultural land in order to round out for the client an economic farm unit where some major shift in agricultural economy was planned, such as shifting from cash-crop farming to the diversified livestock and grazing economy.

2. To purchase foundation herds of purebred or high grade livestock to be carried as a farm enterprise by the client having land ownership or security of tenure for the period of the loan.

3. For land clearing operations on necessary land suitable for farming purposes where such loans were not inconsistent with other agricultural programs authorized by Congress, and meeting certain other stipulations.

Not to exceed 5 years for the following purposes:

1. Purchase of work stock or subsistence livestock.

2. Purchase of farm machinery or household equipment.

3. Purchase of lime and fertilizer for the seeding of land to permanent pasture and meadow, the benefits of which would be spread over a number of years and where tenure arrangements protected the tenant's benefit from the improvement.

17/ Report of the Administrator of the Resettlement Administration, 1937, p. 3.
18/ FSA Instruction 731.1, Oct. 25, 1938.

4. Construction of minor buildings and fences and repairs thereto, and for other minor farm improvements essential to the successful operations of the farm family enterprise.

5. Refinancing chattel mortgages when it was found impossible to make other equitable adjustments and where rehabilitation of an eligible client was threatened by foreclosure on chattels necessary to the farm and home operations, the current commercial value of which was in excess of the amount of the adjusted debt.

6. Refinancing unsecured debts which had been substantially reduced through debt adjustment and where there was a strong probability that the creditor would secure judgment and levy against chattels that were necessary to the rehabilitation of the client. Refinancing in such cases was to be by special authority of the regional director.

Not in excess of 2 years for the following purposes:

Purchase of seasonal farm and home supplies; minor repairs to buildings and fences; repairs to farm and household machinery and equipment; the purchase of farm tools; the purchase of baby chicks or feeder pigs or other livestock which would be consumed or marketed in less than 2 years; the purchase of subsistence goods for human needs and the payment for indispensable medical services and for sanitation; the payment of annual current interest on chattel mortgages; the payment of annual current rent on land and buildings; the payment of annual current taxes on real and personal property; the payment of crop insurance premiums; the payment of recording and filing fees and the payment of current labor, professional and transportation and utility service fees. However, annually recurring operating expenses, interest and depreciation were to be repaid annually, rather than over the 2-year period, in order to avoid pyramiding indebtedness.

Where the loan was made for a period of 5 years or more, the early payments on the principal might be deferred or fixed at a lesser amount than in later years, if the borrower were subject to certain conditions of financial stress. A heavy repayment schedule on funds advanced for purposes which had to be repaid in less than 2 years or the necessity of devoting the early years to soil improvement or other operations which would defer the time of major returns to the borrower were examples of conditions justifying deferred payments.

Nonreal estate accounts of borrowers from other agencies could be taken over when threatened foreclosure would deprive the borrower of chattels essential to the operation of the farm and home plan and where such chattels had a commercial value equal to or greater than the adjusted amount of the lien. Real estate loans could not be refinanced according to the 1938 instructions. Repayment dates were to be fixed in accordance with anticipated time of receipts from sales.

The size of the loan, within certain maximum limits set at times by law, was determined by the aid the farmer needed to put his farm and home plan into operation, provided the plan made realistic provision for repayment. Instructions issued in 1942, following passage by Congress of restrictions on the size of loans to individuals, permitted regional directors to authorize loans to an individual in any one fiscal year in amounts not exceeding $2,500 in the aggregate for a standard loan or this type loan in combination with any other type made by the agency (except Tenant Purchase provided this would not result in total indebtedness to the Government in excess of $5,000 for standard or nonstandard loans, more than $7,500 for joint ownership loans, or more than $7,000 for all other types or combinations of loans (except tenant purchase and farm enlargement). 19/ The directors might not authorize loans in excess of $25,000 to a land-leasing association, $7,500 to a water facilities association, and $15,000 to all other associations.

Certain restrictions as to purposes and size of loans were added from time to time as a part of the appropriation acts. Loans to cooperatives for industrial purposes were barred beginning with the Emergency Relief Appropriation Act of 1938 (53 Stat. 507), although the "first processing of sweetpotatoes" was excepted in the 1939 appropriation (Sect. 34, 53 Stat. 927). The Emergency Relief Appropriation, fiscal year 1941, eliminated the financing of cooperative stores and prescribed that no loan be made "to any person to enable him to subscribe or pay for stock or membership in any cooperative association or branch thereof not organized or in existence on the date of enactment of this joint resolution" (54 Stat. 611). The Department of Agriculture Appropriation Act, 1943, stipulated none of the funds appropriated for loans, grants, and rural rehabilitation could be used for "(1) the purchase of land or for the carrying on of any land purchase program; (2) for carrying on any experiment in collective farming, except for the liquidation of any such projects heretofore initiated; or (3) for making loans to any individual farmer in excess of $2,500" (56 Stat. 664). The limitation on land purchase and "collective" farming was not aimed at standard loan activities but the limitation on size of loan, which has been continued, has affected standard loans.

The 1944 Department of Agriculture Appropriation Act (Public Law 129-78th Congress, 1st Sess.) prohibited the leasing of land or carrying on any Land-leasing program; the carrying on of any operations in cooperative farming "or the organization, promotion or management of homestead associations, land-leasing associations, land-purchasing associations, or cooperative land purchasing for colonies of rehabilitants" except for expeditious liquidation, the making of loans to any cooperative association, or the making of loans for the payment of dues to or the purchase of any share or stock interest in any cooperative association (except for medical, dental or hospital services); or for any expenditure other than that deemed necessary, in the discretion of the Administrator, for the production of agricultural commodities.

19/ FSA Instruction 701.1, Nov. 11, 1942.

Beginning in the fiscal year 1943 administrative policy was to keep down the size of loans by (1) eliminating virtually all refinancing not essential to maintenance of full production, (2) reducing amounts loaned for capital goods for farm and household to a minimum, and (3) eliminating use of funds for farm and home building repairs unless essential to maximum utilization of family labor. 20/ This policy was a wartime adjustment.

The 5-percent interest accrues on principal only and is not compounded. Approval of a loan is predicated on the probabilities of repayment on the basis of income produced in accordance with the farm and home plan; and not upon the chattel or real security available. However, standard loans are secured in full amount by a first lien on crops growing or to be grown and by a first lien on any livestock or equipment bought with the proceeds of the loan. If additional security is needed, there may be an assignment of proceeds from the sale of agricultural products, Government benefit payments (under limits), a lien on other personal property, or in unusual circumstances, a real estate mortgage or deed of trust. When local law gives the landlord a prior lien on crops and a subordination cannot be obtained, the best alternative lien is taken.

Supplemental loans, subject to the same provisions as the original loan, have been made when necessary. There have been no limits as to the length of time supplemental loans may be continued although county committees have certain responsibilities in deciding what shall be done in each case.

Source of loan funds.- Three sources of funds have been available for standard loans: (1) Corporation trust funds, (2) Congressional appropriations, and (3) advances from the Reconstruction Finance Corporation.

Assets of the State corporations held in trust by the Federal agency since transfer of the rehabilitation program from FERA to the Resettlement Administration constitute in effect a small revolving fund from which loans have been made. But from the establishment of Resettlement through the 1940 fiscal year, the majority of the loan funds came from funds directly appropriated by Congress for this purpose or set aside by the President from relief appropriations. Beginning with the 1941 fiscal year all loan funds have been borrowed, by Congressional authorization, from RFC. The amount of such borrowings have been limited by law, have drawn interest from FSA at the rate of 3 percent payable semi-annually, and are secured by the notes of rehabilitation borrowers.

Amount of standard loans.- Nearly 787 million dollars in the form of standard loans to individuals was obligated from appropriated and borrowed funds between July 1, 1935 and June 30, 1944. Some of this was

20/ Letter C. B. Baldwin, Administrator, FSA to Regional Directors, 1942; also FSA Instruction 731.1, Nov. 9, 1942.

for standard loans to project occupants and tenant-purchase families. 21/ An additional 73 million advanced from Corporation trust funds during the same period, including obligations made and not repaid prior to transfer to RA, includes an unknown amount for standard loans to standard borrowers.

The peak of standard loan activity was reached during the 1942 fiscal year when more than 116 million dollars were obligated (table 5). The smallest amount was loaned for the 1937 fiscal year. Annual fluctua - tions in the amount loaned cannot be accepted as reflecting yearly variations in the need and demand for this type of credit but, rather, the amount of funds set aside for this purpose.

Table 5.- Amount of standard loans obligated, original and supplemental, by fiscal years, 1936-1944. 1/

Fiscal year ending June 30	Total		Original		Supplemental	
	Dollars	Percent	Dollars	Percent	Dollars	Percent
Total	786,854,668	100.0	414,511,580	52.7	372,343,088	47.3
1936	74,910,673	100.0	65,978,404	88.1	8,932,269	11.9
1937	56,304,529	100.0	26,832,951	47.7	29,471,578	52.3
1938	66,574,459	100.0	37,142,002	55.8	29,432,457	44.2
1939	112,235,776	100.0	71,040,243	63.3	41,195,533	36.7
1940	93,387,063	100.0	48,683,399	52.1	44,703,664	47.9
1941	105,294,392	100.0	54,471,579	51.7	50,822,813	48.3
1942	116,445,064	100.0	49,729,567	42.7	66,715,497	57.3
1943	94,257,865	100.0	36,886,932	39.1	57,370,933	60.9
1944	67,444,847	100.0	23,746,503	35.2	43,698,344	64.8

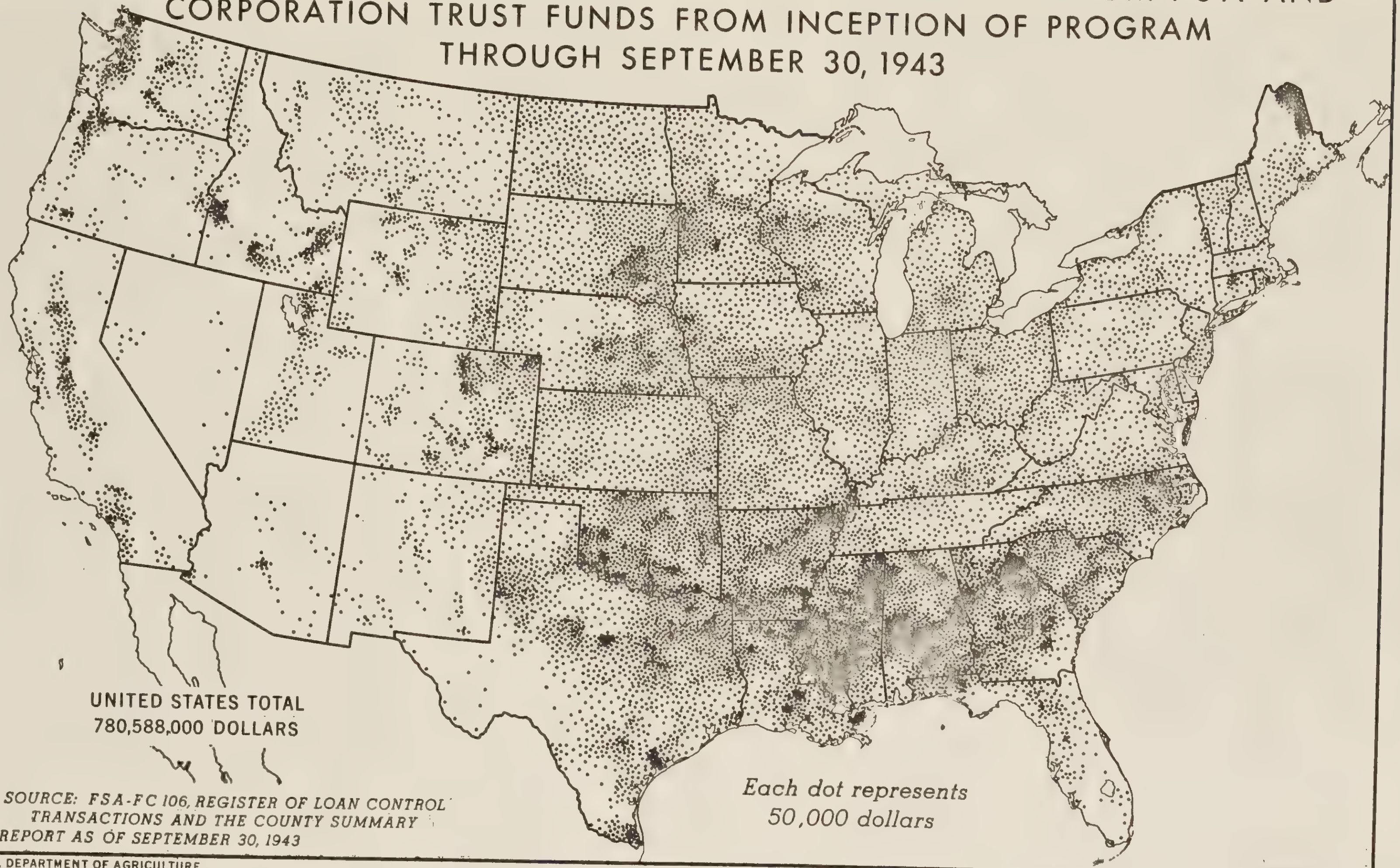
1/ Excludes corporation trust funds; includes standard loans to other than standard borrowers; includes $2,978,151 for Region XIII. Source: Based upon Form FSA-RR49 for 1936-40; Form FSA-323 thereafter.

Nearly half, 47 percent, of the total amount went to the four Southern regions, which had 56 percent of the borrowers. The proportion going to each of the regions was as follows:

Region	Percent	Region	Percent	Region	Percent
I	5.7	VI	13.3	XI	4.7
II	7.0	VII	10.3	XII	2.9
III	11.0	VIII	12.5	XIII	0.4
IV	8.1	IX	3.4		
V	13.3	X	7.3	Total	100.0

21/ Through March 31, 1943 standard loans totaling $25,366,217 had been received by 20,411 tenant-purchase borrowers. See Standard Rural Rehabilitation Loans and Grants to Tenant Purchase Borrowers, FSA Program Analysis Rept.No. 26, Aug. 23, 1943.

RURAL REHABILITATION LOAN ADVANCES TO INDIVIDUALS FROM FSA AND CORPORATION TRUST FUNDS FROM INCEPTION OF PROGRAM THROUGH SEPTEMBER 30, 1943



SOURCE: FSA-FC 106, REGISTER OF LOAN CONTROL TRANSACTIONS AND THE COUNTY SUMMARY REPORT AS OF SEPTEMBER 30, 1943

U. S. DEPARTMENT OF AGRICULTURE

NEG. 45325 BUREAU OF AGRICULTURAL ECONOMICS

A comparison of the proportion of funds loaned in each region with the proportion of borrowers residing in each (table 1) shows that funds were not generally distributed in accordance with the number of borrowers. Southern Regions IV, V, and VI, and Corn Belt Region III received proportionately less, and Regions I, VII, IX, X, and XI received proportionately more money, than they had borrowers. Although the distribution of funds shown in Figure 7 follows much the same pattern as the distribution of borrowers pictured in Figure 3, a comparison shows that smaller loans were made in the Southern States. Figure 7 includes the 3 percent of advances to individuals which were for emergency loans, but the effect of this is mostly to darken the picture in North and South Dakota, the Southern Plains "Dust Bowl," and a few smaller areas.

Division between original and supplemental loans.- Slightly more than half, 53 percent, of the total standard loan obligations were for original, or what are sometimes called initial, loans of borrowers. The remaining 47 percent was for supplemental loans. This means that many borrowers required more than the original loan to get back on their feet.

From 1940 on, a steadily increasing proportion of the standard loan money went to supplement initial loans. By 1944, 65 cents out of every standard loan dollar was obligated for a supplemental loan -- going to an old rather than a new borrower (table 5). The continued credit needs of borrowers already active had first claim upon available funds. The proportion for supplemental loans probably tended to increase because of (a) the rise in the general price level, (b) the emphasis on getting borrowers established with economic units, and (c) the emphasis on getting wartime food production. A reduction in loan funds and in personnel meant a smaller proportion of the total loan funds were available for original loans and there was less time to work with new borrowers. Also, a wartime policy of emphasizing collections may have operated to increase the demand for supplemental loans over what it might have been.

The division of funds between original and supplemental loans varied greatly by regions. In Region II, only 22 percent of the standard obligations were for supplemental loans (table 6). Regions III, IX and XI were also notably below the national average in this respect. Two Southern regions, V and VI, were at the other extreme with three-fifths of their funds going for supplemental loans. Regions VIII and XII both had one-half of their total loans in supplementals.

By way of illustrating differences in problems and policies, during the 1939 fiscal year, 18 percent of the standard obligations in Region II and 35 percent of those in Region V were for supplemental loans; during 1944, 37 percent of the Region II and 88 percent of the Region V obligations were for this purpose (the amount of original and supplemental loans by fiscal years for each region is given in tables 34 and 35, Appendix).

Table 6.-Amount of standard loans, original and supplemental, obligated July 1, 1935 - June 30, 1944, by Regions 1/

Region	Total		Original		Supplemental	
	Dollars	Percent	Dollars	Percent	Dollars	Percent
United States	786,854,668	100.0	414,511,580	52.7	372,343,088	47.3
I	45,122,406	100.0	23,974,568	53.1	21,147,838	46.9
II	55,436,174	100.0	43,209,262	77.9	12,226,912	22.1
III	87,423,967	100.0	59,190,949	67.7	28,233,018	32.3
IV	63,466,755	100.0	32,564,350	51.3	30,902,405	48.7
V	104,583,139	100.0	41,593,003	39.8	62,990,136	60.2
VI	104,715,235	100.0	43,735,761	41.8	60,979,474	58.2
VII	80,822,394	100.0	44,385,917	54.9	36,436,477	45.1
VIII	98,532,537	100.0	45,173,950	45.8	53,358,587	54.2
IX	27,028,068	100.0	16,040,716	59.4	10,987,352	40.6
X	57,333,274	100.0	29,310,216	51.1	28,023,058	48.9
XI	36,674,722	100.0	23,009,180	62.7	13,665,542	37.3
XII	22,737,846	100.0	10,540,621	46.4	12,197,225	53.6
XIII	2,978,151	100.0	1,783,087	59.9	1,195,064	40.1

1/ Excludes corporation trust funds; includes standard loans to other than standard borrowers. Source: Based upon Form FSA-RR49 for 1936-40; Form FSA-323 thereafter.

Frequency of supplemental loans.- If original loans were perfectly planned and immediately gave the borrower an adequate economic base and if plans were completely realized, there would be no need for supplemental loans. In practice, the number of supplementals represents an even larger proportion of total standard loan activity than does the amount loaned for this purpose. Two-thirds of all standard loans made between July 1, 1935 and June 30, 1944 from other than corporation trust funds were for supplemental loans. Even in the first year of loan activity under the Federal agency, one-third of the loans were supplementals (table 7). From 1939 on, a steadily increasing proportion of the total number of loans each year was the supplemental type, until in 1944 such loans accounted for 85 percent of the total standard loan activity.

The number of supplemental loans as a percentage of the total has varied widely by regions, just as has the use of funds. Again Region II represents the minimum use of supplemental loans, only 39 percent of the total number being for this purpose during the 9-year period studied (table 38, Appendix; the number of original and supplemental loans for each region by fiscal years is given in tables 36 and 37, Appendix). Again, Southern regions represent the maximum use of supplemental loans, 3 out of every 4 in V, VI and VIII being in this category. Such loans were nearly as frequent in drought-hit Region VII and in X. By 1944 new loan activity had virtually vanished in Regions V and VI; only 5 percent of the total number were original loans.

Table 7.-Number of original and supplemental as percentage of total standard loans obligated, by fiscal years 1936-1944 1/

Fiscal year ending June 30	Total	Original	Supplemental
	Percent	Percent	Percent
Total	100.0	32.5	67.5
1936	100.0	67.3	32.7
1937	100.0	23.7	76.3
1938	100.0	31.5	68.5
1939	100.0	40.3	59.7
1940	100.0	28.0	72.0
1941	100.0	24.0	76.0
1942	100.0	21.5	78.5
1943	100.0	20.7	79.3
1944	100.0	14.6	85.4

1/ Excludes corporation trust funds; includes standard loans to other than standard borrowers, includes Region XIII. Source: Based upon Form FSA-RR-49 for 1936-40; Form FSA-323 thereafter.

A second measure of the frequency of supplemental loans is their ratio to active borrowers, since such loans are not made to borrowers in any other status. Each year since 1937, there have been from 49 to 68 supplemental loans per 100 active borrowers. This ratio uses as the base the smallest number of borrowers active during the year, since those becoming paid up, or reclassified as collection-only, or dropped during the year, would seldom be expected to have received a supplemental loan. However, taking the largest number of borrowers active during the year does not change the over-all picture materially except for 1944 when borrowers were leaving the active category at a much more rapid rate than they were being added (table 39, Appendix). Although supplemental loans have been an increasing proportion of total standard loan activity since 1939, as measured by both amount and number, the ratio of such loans to active borrowers has been decreasing annually since 1941.

A third measure of the frequency of supplemental loans is the number received per borrower. Of borrowers accepted during 1936-37, only 39 percent had confined their borrowing to one loan by March 1939. Such borrowers had been on the program between 2 and 3 years by the March 1939 date. One-fifth had received at least 3 supplemental loans, thus averaging a minimum of one such loan per year including the year of the initial loan. Five percent had received 5 or more such loans during the 2 to 3 year period represented (table 8). Since three-fourths of this group were still active in the spring of 1939, these data by no means represent the total number of advances which this group could be expected to receive while on the program.

Taking Regions II and VI as examples of limited and frequent use, respectively, of additional loans following the original, in the first case 42 percent of the borrowers accepted during 1936-37 had received

a supplemental and 1 percent had received 3 by March 1939 while in Region VI, 89 percent had an additional loan and 58 percent had 3 or more such supplementals.

Taking borrowers accepted during 1937-38, and thus having 1 to 2 years on the program by March 1939, only 43 percent had received only their original loan. One-fourth had received two or more supplementals. For those accepted during 1938-39 and thus having a maximum of 12 months during which to receive a loan by March 1939, at least a second loan was received by 18 percent. In Region II, 96 percent of this latter group got by with only the original loan as compared with 71 percent of those in Region VI.

Because of the continued importance of the supplemental loan activities there is reason to believe this picture for the 1936-39 period would be fairly descriptive of the situation later. 22/

Table 8.–Standard loan borrowers accepted 1936-39 classified by number of supplemental loans authorized by March 1939, by period of acceptance: all Regions and II and VI 1/

Number of supplemental loans	Period of acceptance and Regions: 3-1-36 to 2-28-37			3-1-37 to 2-28-38			3-1-38 to 2-28-39		
	U.S.	II	VI	U.S.	II	VI	U.S.	II	VI
	Pct.	Pct.	Pct.	Pct.	Pct.	Pct.	Pct.	Pct.	Pct.
0	38.8	57.6	11.2	42.6	77.0	18.0	81.5	95.5	71.4
1	24.1	34.0	15.1	33.2	21.0	45.2	15.2	4.4	22.1
2	15.9	7.2	15.4	15.7	1.8	20.2	2.9	0.1	5.8
3	10.2	1.2	18.9	5.8	0.2	11.6	0.4	—	0.7
4	6.0	—	18.0	1.9	—	3.1	*	—	—
5 or more	5.0	—	21.4	0.8	—	1.9	*	—	—
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

* Less than 0.05 percent.
1/ Source: BAE study of standard loan borrowers.

The frequent use of supplemental loans was due to a combination of factors. Several factors are outlined here including: (1) Unanticipated needs came up requiring additional funds so a supplemental loan

22/ Considering all standard borrowers accepted by September 30, 1943, of which 94 percent were accepted prior to 1943, 64 percent had received loans during 2 or more years by this date. Some, of course, received more than 1 loan during their first year so this understates the proportion not receiving supplemental loans. Three percent had received loans during 8 or 9 years. Among the active group as of the same date, of which 88 percent were accepted prior to 1943, 72 percent had received loans during 2 or more years and 5 percent during 8 or 9 years. See Debt Status, Tenure and Resources of Each Class of Standard RR Borrowers in 1943, FSA Release No. 6, 1943 Family Progress Report, June 30, 1944.

was made, policy being to provide a complete line of credit for families on the program. Such needs might be the result of unpredictables such as bad weather or other disasters of nature, or illness in the family, or they might be due to incomplete original farm and home planning or to changes in the plan such as adding a new enterprise or providing for health association membership. (2) The original loan may not have been enough to set up the borrower on a unit that could support the family and permit saving enough to meet all current farm operating and capital expenses. (3) Repayment schedules may have been over-optimistic and collection policies too strict so that borrowers depleted their cash reserves to meet these schedules, using funds which otherwise could have financed the succeeding year's operating expenses. (4) Loan policy in some cases was to start a borrower out with a small loan and meet later needs by an additional loan because (a) this was a sound way of building up the farm business and (b) this was seen as the best way of testing and developing the managerial ability of the borrowers. (5) Local credit custom of annual advances was followed. (6) Borrowers were unwilling to take on a larger debt than they were accustomed to or felt was necessary.

The traditional credit system to which both borrowers and supervisors were accustomed, the limited resources of borrowers, and the policy of moving slowly with families being "habilitated" undoubtedly were largely responsible for the frequent use of supplemental loans in the Southern regions while drought and pests were most responsible for their high frequency in the Great Plains.

Size of original loan.- The average size of the initial loan to standard borrowers increased fourfold between 1936 and 1944. An average of $240 for the first fiscal year under Federal administration, 1936, reflected the relief philosophy of the times (table 9). The size was doubled by the next year, however. From 1938 through 1942 the average ran in the neighborhood of $600. There was some increase in 1943 followed by a sharp increase in 1944 to an average of more than $1,000. Despite Congressional limitations on the maximum size of loan, the average moved upward. This trend was not due to selecting borrowers needing more help to get a start. Neither can the increase between 1943 and 1944 all be attributed to a rise in the price level. Rather it was due to action to establish borrowers with a more adequate economic base and possibly, to an accompanying intention to reduce the use of supplemental loans. Whatever the reasons for the later increases, it is of interest that such a trend occurred in spite of the fact that field personnel were supposed to keep down the size of loans if practicable.

Regional variations with respect to the average size of loan have been great but not in the same relation to resources which might perhaps be expected. The initial loans have been smallest in the South, where borrowers had the fewest resources. In every region the tendency has been evident to get away from the small initial loans of 1936 and 1937. The largest average size of loan was made in 1944 in all regions but V, which hit a high in 1943, and X and XI which reached their peak in 1939 (table 40, Appendix). From 1937 through 1941, Region X consistently had the largest loans, ranging from $1,095 to $2,033. During

1943-44, top honors went to Region II, with initial loans running from $1,021 to $1,512. By way of contrast, during 1944 initial loans in Southern Regions IV and V averaged slightly under $500 compared with $1,512 for Region II. During 1936 when loans were smallest in all regions the range was relatively even more pronounced — from $130 in Region VI to $714 in XI.

Table 9.–Average amount of original and supplemental standard loans obligated, by fiscal years 1936-1944 1/

Fiscal year ending June 30	Original	Supplemental
	Dollars	Dollars
1936	240	67
1937	487	166
1938	592	216
1939	629	246
1940	612	218
1941	658	194
1942	631	232
1943	704	285
1944	1,007	316

1/ Excludes corporation trust funds; includes standard loans to other than standard borrowers, includes Region XIII. Source: Based upon Form FSA-RR-49 for 1936-40; Form FSA-323 thereafter.

During the period July 1, 1942 - June 30, 1944 when the maximum size of standard loan permitted by Congress was $2,500, slightly less than one-third of the initial loans were under $500, an equal proportion were $500-$999, and more than one-third were in excess of $1,000 (table 41, Appendix). One loan in 10 exceeded $2,000. Five regions — I, II, IX, X, and XI — had at least one-fifth of their loans in this highest bracket. Southern Regions IV, V, and VI were considerably above the national average in the proportion of borrowers with loans of less than $500.

In keeping with the increase in average size of loan has been an increase in the proportion of large loans. Data for the major part of the 1942 fiscal year showed 24 percent of the new loans were $1,000 or more, and 4 percent $2,000 or more as compared with 38 and 10 percent, respectively, for the 1943 and 1944 years combined. 23/

Size of supplemental loans.- Supplemental loans have averaged one-third, or a little more, as large as initial loans. This average size increased each year through 1939, dropped off for 2 years, and then started upward again, to reach — like initial loans — an all-time high in 1943 and 1944. The ranges were from $67 in 1936 to $316 in 1944 (table 9).

By 1944 the average supplemental loan was larger than the average initial loan had been back in 1936 for every region but V, thus reflect-

23/ Based upon FSA report for administrative use.

ing a basic shift in the program away from relief and "subsistence" to greater emphasis on an economic unit. In view of the smaller size of initial loans and more limited resources at the time of acceptance of borrowers in the South, one might suppose the supplemental loans would average larger in order to compensate. But this is not the case, for in every year the supplemental loans tended to average the smallest in Southern regions (table 42, Appendix). Region I, New England, consistently had the largest supplemental loans through 1943, usually followed closely by the Western regions.

During the 1943-44 fiscal years, 19 percent of the supplemental loans were under $100 and 18 percent were $500 and over. However, in all but the Southern regions and XII at least one-third were in the larger category (table 43, Appendix). In the Southern regions, as many as one-fourth were for less than $100. During these 2 years, twice as large a proportion were in excess of $500 as during the 1942 fiscal year.

Total loaned per borrower.- How many dollars must be loaned a family to allow it to be rehabilitated is a question that cannot be answered from the experience of the rehabilitation program. Too many other factors are involved. But the experience does permit the generalization that the amount loaned must be large enough, when combined with the resources the borrower already has, to produce an income that will pay farm and family expenses, interest, and depreciation if the loan is to be repaid within the lifetime of the goods for which the loan is advanced. 24/ The less the resources of the borrower at the time of acceptance, the larger the loan must be, assuming the same level of living.

The average borrower who had ever been on the program through September 30, 1943 had received loans totaling $1,043. Those who were paid up had received $825, those who were classified as collection-only had received $774, and those who were dropped had received $651 (table 44, Appendix). Active borrowers had received $1,310 reflecting (1) that they had been on the program an average of at least twice as long as the other categories and thus were more likely to have received supplemental loans, and (2) the weighting of the larger initial and supplemental loans made during the later years of the program.

Although paid-up borrowers for the country as a whole received more than the collection-only and dropped groups, only 4 regions — II, VIII, X and XII followed the national pattern. In the other eight, the collection-only group received the largest loans among the non-active categories. In every region, however, the paid-up group had

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24/ FSA, using 1942 prices and data from the 1942 Family Progress Report of active borrowers, found $1,300 to be the minimum average value for the United States of working capital necessary to permit these families to operate a farm which will return enough income to pay $1 on debts after meeting farm operating and family living expenses. See FSA Family Progress Report No. 6, 1943, op.cit.

the most resources at the time of acceptance and therefore required smaller loans. The dropped group — those from whom efforts at collection are no longer made — had the least resources and received the smallest loans.

The story with respect to the amount loaned is different for the early part of the program covered by the study by the Bureau of Agricultural Economics. Among borrowers accepted during 1936-39, those paid up by March 1939 had borrowed only $322 (median) as compared with $537 for the dropped and collection-only categories combined. In every region the group paid up by 1939 had the smaller loans but more resources at the time of acceptance; in general, they were border-line cases with respect to acute need for rehabilitation credit.

The greater frequency of supplemental loans in the Southern regions has not compensated for the smaller average size of initial and supplemental advances. Despite less resources at time of acceptance, Southern borrowers have received less loan funds than those in other regions to help them to improve their position (table 44, Appendix).

From the BAE study some picture may be obtained of the variation in size of loan within regions as well as among regions. For example, of the borrowers accepted during 1936-37 in Region V, one-fourth borrowed less than $250 by the spring of 1939, one-half borrowed less than $500 and only 16 percent more than $1,000 (table 45, Appendix). In contrast, in Region X, 3 percent borrowed less than $250, 11 percent less than $500, and 68 percent more than $1,000. In fact 3 percent of those in X had borrowed in excess of $5,000 within this 2- to 3-year period.

Although larger loans have been made in the areas where the borrowers had more resources, because of the social-welfare objectives of the rehabilitation program the amount of the loans has not varied directly with the economic resources of the borrowers at the time of acceptance. For example, among active borrowers in five Missouri counties about as much money was loaned by July 1, 1940 to those with almost no resources as to those with considerable, as shown by the following summary: 25/

Net worth	Value of assets at acceptance	Amount of loan
Under $300	$ 205	$670
$301 - 600	445	586
601 - 900	688	643
901 - 1,200	1,036	572
Over 1,200	1,804	695

As one further evidence that rehabilitation credit had social-welfare objectives rather than being on a strictly banking basis, the average advances made to borrowers may be compared according to tenure status before acceptance and net worth of the 1936-39 group

25/ Harness, op.cit., p. 19.

in the BAE study. With the exception of the croppers, who reflect the smaller loans made in the South, the groups with the smallest net worths had the largest loans. This is shown in the following tabulation:

Tenure before acceptance	Median working capital net worth at acceptance	Median amount of loans, 1936-39
Full owner	$473	$634
Part owner	484	782
Tenant	357	708
Cropper	149	572
Hired farm labors	167	895
Non-farm	179	788

Borrowers over 55 years of age tended to borrow smaller amounts than those younger, probably because they needed less credit and possibly because they were more reluctant to borrow above minimum needs.

Purposes of loans.- Nearly 1,500 different purposes were listed on the loan agreements made during 1936-39 for a group of 35,672 borrowers studied. The range of items covered nearly everything needed in operating a farm in different parts of the country and a wide range of living items — from turning plow to tractor, from hatching eggs to steers, from nails to houses, from recording fees to farm-organization dues, from arsenic to alfalfa, from paying off the local merchant and banker to paying off the Farm Credit Administration, from a meat hog to false teeth, from obstetrical fees to burial insurance.

This variety of items was reduced to the following major categories for analysis: (1) Capital goods, including (a) machinery and equipment, (b) livestock and poultry, and (c) improvement of land and buildings; (2) debt settlement and refinancing; (3) current farm operating expenses; and (4) family expenses.

There was a distinct difference in the purposes of original and supplemental loans. Half of the original but only one-third of the supplemental loans were for the purchase of some form of capital goods, primarily livestock (table 10). Debt settlement and refinancing took 17 percent of the total amount of original loans but only 6 percent of the supplemental, a difference which would be expected in view of the policy of getting necessary refinancing done at the time of entering the program. In the other major categories, the supplemental loans had the larger proportions. Thus one-fourth of the original but one-half of the supplemental advances were for current farm expenses and 7 percent of the original but 9 percent of the supplemental money was for family expenses. In general, the initial loan gave the borrower some resources, refinanced critical debts and provided for current expenses. The supplemental loans helped meet annually recurring expenses and continued to build up resources of the borrower.

Table 10.-Original and supplemental loans through February 28, 1939 to standard loan borrowers accepted 1936-39, classified by major purposes for which authorized; percentage of borrowers authorized loans for specified major purposes 1/

Major purposes	Amount		Borrowers authorized loans
	Original 3/	Supplemental	
	Percent	Percent	Percent
Capital goods	49.9	33.4	89.4
(a) Machinery and equipment	7.1	6.7	50.8
(b) Livestock and poultry	41.0	24.5	83.9
(c) Improvement of land and buildings	1.8	2.2	15.8
Debt settlement and refinancing	16.6	5.6	45.7
Current farm operating expenses	26.0	51.2	87.4
Family expenses	6.6	8.6	56.3
All other 2/	0.9	1.2	18.1
Total	100.0	100.0	100.0

1/ Source: BAE study of standard loan borrowers; Region III excluded.
2/ Includes loans for which purposes were not known or not reported so as to be classifiable by major purposes.
3/ Includes some supplemental loans since for borrowers accepted March 1, 1936 - February 28, 1937, for example, all loans authorized within this period are included.

In all regions but V, capital goods accounted for the largest proportion of the original loans; in this region current farm operating expenses took the largest share (table 46, Appendix). The proportion going for capital goods ranged as high as the 65 percent in Region II. The 43 percent in Region V for current farm expenses represented the top for this purpose. Southern Regions V, VI, and VIII and XII were above average in the proportion authorized for family expenses, the percentage reaching one-fifth of the total in VI. The largest peoportions for debt settlement were in non-Southern regions, except for VIII.

Considering supplemental loans, in 8 regions current farm operating expenses took the largeest proportion, in 3 — VI, VIII and IX — this purpose and capital goods were about equally important, while in II capital goods was by far the most important. Half or more of the supplemental money was for current farm expenses in Regions I, IV, V, VII, X, XI, and XII. Advances for family expenses were significant only in the Southern regions but included 30 percent of the supplemental money in Region VI.

If it is assumed that the advances for debt settlement and refinancing were for items with a lifetime of more than 1 year, and that all family expenses were for goods with less than 1 year's lifetime, then two-thirds of the original advances were for recoverable goods and one-third for nonrecoverable goods. For the supplemental loans, the

proportions were almost reversed, two-fifths being for recoverable and three-fifths for nonrecoverable goods (table 11).

Table 11.-Original and supplemental loans through February 28, 1939 to standard loan borrowers accepted 1936-39, classified by recoverable and nonrecoverable purposes for which authorized, by regions 1/

Region	Original			Supplemental		
	Total	Recoverable	Nonrecoverable	Total	Recoverable	Nonrecoverable
	Pct.	Pct.	Pct.	Pct.	Pct.	Pct.
United States	100.0	66.5	33.5	100.0	39.0	61.0
I	100.0	66.5	33.5	100.0	26.9	73.1
II	100.0	90.7	9.3	100.0	79.9	20.1
IV	100.0	65.9	34.1	100.0	38.4	61.6
V	100.0	47.5	52.5	100.0	26.7	73.3
VI	100.0	55.7	44.3	100.0	36.1	63.9
VII	100.0	75.2	24.8	100.0	48.3	51.7
VIII	100.0	64.3	35.7	100.0	43.6	56.4
IX	100.0	63.4	36.6	100.0	49.3	50.7
X	100.0	73.4	26.6	100.0	40.9	59.1
XI	100.0	68.6	31.4	100.0	24.7	75.3
XII	100.0	51.0	49.0	100.0	31.8	68.2

1/ Based upon table 46, Appendix; Region III excluded.

All four Southern regions and IX and XII exceeded the national average in the percentage of the original loans allotted to nonrecoverable goods. Southern regions IV, V, and VI — along with I, XI, and XII — were above average in the percentage of supplemental loans for nonrecoverable goods. It is significant that borrowers in the Southern regions, having less resources at the time of acceptance than those elsewhere, were in general not only made the smallest initial, supplemental, and total loans but, in addition, received a larger proportion of the loans for nonrecoverable rather than capital goods. The repayment period was much shorter for the nonrecoverable than for other purposes.

Three-fifths of the total advances for the 1936-39 group of borrowers were for recoverable goods, with a variation from the low of 44 percent in Region V to 90 percent in Region II (table 47, Appendix).

Some notion of trends in the purpose of loan during the 1936-39 period can be obtained by comparing first-year loans during each of 3 successive years. Whereas capital goods maintained a constant proportion, one-half, current farm operating expenses and family expenses received a progressively smaller share of the loan money and debt settlement a larger share (table 48, Appendix). Current farm and family expenses combined dropped from 40 percent of the total for 1936-37 borrowers to 27 percent for the 1938-39 group. Growth in the practice of consolidating debts, and incidentally bailing out private

and other public agency creditors is shown by the increase of advances for debt settlement from 8 percent of the first year loans for the 1936-37 group to 22 percent for the 1938-39 group. To the extent that refinancing was for recoverable goods, the 1936-39 group received a progressively larger proportion of such first year loans than was the case during 1935-36, the first year of rehabilitation under RA, when 51 percent was loaned for recoverable goods. 26/

All borrowers did not receive loans for all purposes but the variety of needs of most of them was expressed in the fact that so many did receive advances for a combination of purposes. Nine out of 10 of the 1936-39 group obtained funds for the purchase of capital goods (table 49, Appendix). An almost equally large proportion received advances for current farm-operating expenses. Over half of the borrowers received some money for family expenses and nearly half refinanced debts. Livestock and poultry was the most important capital-goods category, 84 percent receiving loans for this purpose. Half were made advances for machinery and equipment.

It appears significant, viewed against the general background of resources and size and frequency of loans, that a region like V should have the smallest percentage of borrowers to whom were made loans for livestock and poultry; that practically every borrower in V and VI should be made loans for current farm-operating expenses; that V, VI and VIII should be 3 of the 4 regions above average in the percentage of borrowers having debts refinanced; and that these same Southern regions should be so far above the national average in the proportion of borrowers loaned money for family expenses.

Immediately upon acceptance nearly all borrowers needed some capital goods, especially livestock, and funds to meet current farm-operating expenses. Half of them needed money for family purposes. One-third to a half had debts refinanced almost immediately (table 50, Appendix). The 1936-39 data suggest that about half came back for financial aid the second year on the program, particularly for current farm-operating expenses but also frequently to add more capital or to meet family expenses. About one-third came back for help the third year, again most commonly for current expenses but frequently to add still more capital goods. The proportion returning for help annually dropped off progressively. The policy was to adjust repayment schedules and collections to permit a borrower to build up a reserve with which to meet annually recurring costs and thus eliminate the necessity for a supplemental loan. The results indicate that this policy was not always successfully carried out in practice.

Some further insight into the nature of the credit extended rehabilitation families may be gained from a more detailed classification of purposes of the advances made. For example, the proportion authorized a loan for some form of cattle — anything from a calf to a herd of beef cows — ranged from 18 percent of the Region V borrowers accepted during 1936-39 to 70 percent of the Region II families, while the average amounts authorized for this purpose ranged from

26/ First Annual Report, Resettlement Administration, p. 10.

$46 in Region V to $594 in Region X (table 51, Appendix). The data suggest that not only were fewer Southern borrowers made advances for cattle but that the number of cattle bought through the loans was less and the quality was poorer than elsewhere. From 14 to 51 percent received loans for hogs in amounts ranging from $14 to $106. From 6 to 46 percent were made loans for poultry in amounts ranging from $12 to $152. Work stock was a frequent purpose, from 31 to 75 percent of the borrowers in the different regions having advances of from $182 to $280 for this purpose. Loans for tractors were made to less than 1 percent of the Southern borrowers but to 1 in 10 of those in Region X. The average amounts authorized for tractors suggest that the majority were bought in partnership, frequently through a joint-ownership "simple service" loan. Some were undoubtedly second-hand.

Considering just the loans for current farm-operating expenses, seed and feed took the largest share of the total for the 1936-39 borrowers for both original and supplemental loans (table 52, Appendix). Fertilizer and lime came second for both first year and later loans. From three-fifths to four-fifths of the borrowers were made advances for feed and seed during their first year; much smaller proportions during later years (table 53, Appendix). The proportion receiving loans for other purposes such as fertilizer and lime, labor, and gas, oil, and grease also tapered off after the first year.

The older the borrower, from 35 on, the less likely he was to have been advanced funds for any capital goods or for a large amount of capital goods. As might be expected, farm laborers and the nonfarm group averaged larger loans for capital goods than those who had held other tenures. Croppers, despite their lack of resources, received capital-goods loans averaging but little different than loans for owners and tenants. Eight out of 9 croppers received less than $500 for capital goods compared with less than half of the farm laborers and 80 percent of the full owners.

Standard loan collection policies.- Standard borrowers were made loans in the expectation they would adhere to the terms of their obligations and pay back their loans in full. Violation of the terms, when accompanied by evidence of bad faith, was justification for strict enforcement. This did not prohibit revision of the terms when the welfare and progress of the client and other circumstances warranted. 27/ All property serving as security for a loan was to be given reasonable care by the client to preserve its value and to protect it from destruction and undue depreciation. 28/

Despite the policy that each borrower was obligated to repay in full and that security was to be as adequate as possible, it was recognized from the beginning that not all loans would be paid back. The first estimates were that, including both standard and emergency loans to both individuals and associations, at least 75 percent of

27/ RR Loans - Collection - General, FSA Instruction, Oct. 25, 1938.
28/ FSA Instruction 761.5, Oct. 25, 1938.

the rate might be lowered by an intensive educational program on the care and upkeep of machinery and by requiring repairs whenever possible. This policy was seen as a means of reaching borrowers at a lower economic level by keeping down the repayments required each year.

In cases where a borrower cannot meet his obligations through no fault of his own, but if given an extension of time is likely to be able to pay up, a "forbearance" may be issued. This is simply a decision to take no action to collect for a limited time.

Notes have been "renewed," thus setting up a new schedule of repayments and usually extending the time of repayment, under several circumstances. 32/ These included such considerations as: (1) One or more notes were delinquent because the repayment schedule was too heavy in relation to the borrower's debt-paying ability or for other reasons; (2) no note was delinquent but a supplemental loan was required and for convenience all notes were combined into a new one; and (3) local law was such as to require a renewal. It was the desire of the agency to renew all the notes if there was a default in any one of several taken for one loan. 33/ Renewals were made for a maximum of 5 years.

The effect of a renewal is to reduce temporarily the matured principal but to leave unchanged the total advances, total outstanding, and the amount collected. The new maturity schedule was based upon the borrower's estimated ability to repay and as a rule called for repayments beginning in 8 to 12 months from the date of renewal.

Renewals did keep delinquencies down. Considering all loan funds rather than standard loans only, however, this was not generally the primary purpose of renewals as shown by the following summary for the United States:

Fiscal year	Percent of total principal renewed which was matured
1939	61
1940	46
1941	41
1942	45
1943	39

Renewal activity was at a peak during the 1940 fiscal year, compared with other years, for which data are available. Again considering all loans rather than only standard, the principal renewed as a percentage of the principal outstanding at the beginning of the fiscal year was as follows:

32/ Executive order No. 7413, August 1935, provided for the renewal of borrowers' accounts; this authority was extended to regional directors in Dec. 1935.
33/ FSA Instruction 761.4, Oct. 25, 1938.

Fiscal year	Percent
1939	30
1940	39
1941	33
1942	25
1943	18

There was little similarity among regions in renewal policies, partly because no renewal criteria have been established. Security requirements of the States in Region X forced a high renewal rate which inflated the national average.

Provision was made for a "release" of mortgaged property for reasons such as to (a) enable repayment of a borrower's indebtedness, (b) further the borrower's rehabilitation by permitting the use of proceeds for specified purposes such as expenditures contemplated in the approved farm and home plan, and (c) liquidate the borrower's account. 34/ Releases for purposes and from sources contemplated in the farm plan could be approved at the county level; other releases were granted at the regional level, except for real estate, the release of which was made by the Administrator.

A borrower who did not receive supervision or financing but who had not completely repaid his loans was classed as "collection-only" as long as there was any possibility of collecting from him, or as "dropped" if possibility of collecting had been abandoned. The loans of a dropped case were never renewed; when a borrower was dropped the total amount outstanding was immediately due. Except in such circumstances as death, a collection-only or a dropped case represented failure in at least the financial aspects of the borrower's rehabilitation.

When a borrower defaulted in his loan the county supervisor could recommend "liquidation," the process of collecting all that was possible from a borrower and of realizing on all security that he might have given. The policy was to use liquidation only as a last resort, after every effort had been made to enable the borrower to continue in the rehabilitation program and after considering such factors as the borrower's attitude with respect to intent to repay, the conditions causing the default, the practicability of the farm and home plan, and the effect upon the security if repossession was delayed. 35/ Liquidations were "voluntary" or concurred in by the borrower, or "involuntary" with court action required for repossession of the security. In the case of voluntary liquidation the security might be disposed of by the borrower through private or public sale. As soon as liquidation proceedings were started the total amount of the loan outstanding was due. If the liquidation proceedings realized enough to cover the amount outstanding, the borrower was classified as paid-up, otherwise he was usually placed in the "dropped" category. Except when property was abandoned, any action

34/ FSA Instruction 761.5, Oct. 25, 1938.
35/ FSA Instruction 761.6, Oct. 25, 1938.

to repossess property or liquidate an account had to be approved in advance at the regional level. Legal action to enforce payment was taken by a Federal attorney rather than by the rehabilitation agency.

Before 1938, when accounts were kept by the Treasury Department, repayments were applied first to principal and second to interest. Since FSA has kept the accounts, the reverse has been true.

Cooperative Loans

Cooperative activities as a means of fostering the rehabilitation of borrowers were encouraged by making loans to individuals and to associations, within Congressional limitations.

Loans were made to individuals to participate in cooperative associations or for group services, the latter being an informal group of two or more participants who entered into an agreement to operate and use jointly such facilities as farm machinery or sires. Group service loans in excess of $50 had to be supported by a complete farm and home plan and such a borrower would be classed as standard. Loans of less than $20 for group services could be made only to active standard borrowers. Thus only if the loan were from $30 to $50 and the borrower did not have a standard loan would he be classed as a nonstandard borrower. The interest rate on such loans was 3 percent except in the case of master borrowers, where an individual obtained in his own name a loan for an item to be used jointly with others, the rate has been 5 percent since 1941. 36/ Information is not available on the amount of advances to individuals for cooperative or group purposes.

Until prohibited by Congress as of June 30, 1943 direct loans were made to a wide variety of cooperative associations. Membership in these associations included both standard loan and other borrowers, both RA-FSA and other families. Loans were repayable up to a maximum of 40 years and renewable under certain conditions for the same period. 37/ In general the same policies governed the repayment of loans to associations as to individuals. The interest rate on all association loans was 3 percent.

Direct loans through June 1944 to all associations totaled $22,136,267 of which one-half was in Southern Regions V, VI and VIII. 38/

36/ FSA Instruction 831.1, July 10, 1941.
37/ FSA Instruction 806.1, December 28, 1942.
38/ FSA Report No. 1, Part IV, tables 4-I and 4-J as of June 30, 1944; excluding about $5,000,000 advanced to 16 associations transferred to the Federal Public Housing Authority under Executive Order No. 9070, February 24, 1942. This total is at variance with the 36 million reported to the Cooley committee as of February 28, 1943 because the latter includes advances to Defense Relocation Corporations.

Other Types of Loans to Aid Standard Borrowers

"Club" loans generally not exceeding $75 could be made jointly to clients and their minor children to finance the participation of the latter in 4-H or similar organizations. 39/ Authority was given in 1940 to make club loans up to $150 in special cases approved by the regional director. Loans for 4-H club participation required the concurrence of the county extension agent. Those for use in other clubs required the recommendations of the club's supervisor.

The routine for these loans was the same generally as for standard loans. Until 1941 no separate loan agreement was required; rather, the club loan was usually consolidated as part of an original or supplemental loan. When made as a separate loan, these were considered as supplements to a standard loan. Data are not available showing the number and amount of club loans.

Advances known as ACP, ACL, Agricultural Conservation, or Soil Conservation loans were made in at least some regions, using AAA payments as collateral, to finance soil-building practices. Such credit was first extended in Region XII in 1938 as a result of the credit needs of farmers who could not participate in the agricultural conservation program because they could not finance the purchase of materials needed to carry out soil-building practices. The loans could not exceed 60 percent of the estimated maximum ACP payment, carried 5 percent interest, were to be repaid when AAA paid the borrower, and were made upon recommendation of the county AAA committee. Such loans were automatically paid up, of course, when the farmer received his money from the Government for following specified practices.

Complete information is not available on the number and amount of such loans but it is known that in Region XII 3,656 were made for $736,349 during the 1938 fiscal year and 789 for $154,940 during the 1939 fiscal year. Such loans were also made in Region I during 1938, III and IV during 1940. Apparently the chief effect of such loans was to encourage other credit agencies to make advances on the basis of anticipated benefit payments as security.

Special real estate and farm and home improvement loans available to standard type borrowers are now consolidated with the farm ownership program. Loans are also made to individuals for water facilities and for flood restoration purposes, although the latter are made from a special non-FSA appropriation.

Rehabilitation Credit Principles

An evaluation of the credit made available to standard loan borrowers through the rehabilitation program will include an appreciation of several considerations. Because of this assistance small and low-income farmers have been enabled to remain in agriculture who might otherwise have been forced out altogether into other occupations or onto public relief of some form. Others have been able to acquire

39/ FSA Instruction 731.3, December 2, 1939.

sufficient resources to improve their economic status. This form of credit has offered many their first opportunity to free themselves from outrageous interest rates and impossible terms. As the human welfare objectives have been predominant in formulating policy, the size of loan has not been determined solely by the borrower's equity. At the same time, there has been a tendency, for a variety of reasons, to make this credit conform to more orthodox banking procedures. Progress has been made in adapting the terms and purposes to the needs of borrowers but it is a question whether sufficient flexibility in terms and size of loan has been put into practice, to meet the needs of borrowers at the lower economic levels.

Considered in relation to factors associated with the success or failure of borrowers and the rehabilitation process, experience seems to indicate the following as general principles with respect to the credit phases of rehabilitation.

1. The loan, considering the borrower's resources, must be large enough for such purposes as will establish debt-paying ability if repayment is to be expected.

2. The lower the economic level from which borrowers are selected, the larger the total amount of loan and the greater the need for supplemental loans if the borrowers are to be established on a firm economic base with debt-paying ability.

3. Repayment terms should (a) be based upon the estimated life of the goods for which the loan is made, and (b) provide for variable repayments based upon the debt-paying ability of the borrower, rather than calling for fixed annual installments.

4. The lower the economic level from which the borrower comes, the more flexible must be the repayment schedule.

5. The lower the economic level from which the borrower comes, the greater the desirability that there be a testing period under some arrangement such as a work-grant agreement before a loan is made, so the abilities and capacities of the family may be more adequately appraised and more realistic planning instituted. This will help to maximize the chances of successful rehabilitation.

6. Extending a full line of credit is preferable to risking the conflicts and obstacles to rehabilitation that are likely when borrowers obtain credit from several sources.

7. Repayment by means other than money is not satisfactory without drastic adjustments in Federal collection procedures.

Problems and Issues

Since credit policies with respect to size of loan, terms of repayment, and strictness of collection must be geared in to fit the needs of the borrowers selected, there are two choices. (1) If loans are to be restricted in size without regard to the requirements of the individual family and at the same time a strict collection policy is to be pursued, then families accepted must be near the borderline of eligibility for other forms of credit. (2) If borrowers all the way down to the bottom of the farm economic ladder are to be helped or if a "go slow" technique of building up families is to be followed, flexible credit procedures must be permitted. It is impossible to rehabilitate families successfully by "digging deeper into low-income levels when selecting them" and at the same time advocating smaller loans and stricter collections.

To meet the problem of regularly recurring supplemental loans reqiores adjustments in the farm plant and operations of the individual borrower, sufficiently large advances for capital goods to establish debt paying ability, and flexible collection procedures while the borrower is getting on his feet.

If national policy is to be to make loans to rehabilitate families in low economic s tatus, consideration must also be given to providing for a systematic use of grants for such families in the early years of the rehabilitation process.

To the extent the Nation develops a recognized policy with respect to the kind of a farm plant it wants and the opportunities to be made availa ble in agriculture, rehabilitation credit should be correlated to implement such policies, Correlation will require answers to such questions as, Which families are to receive rehabilitation loans if some must leave agriculture?

CHAPTER 9

GRANTS *

Grants of money with no obligation for repayment were extensively made to farm families during the depression years. The original objective of such grants was primarily to provide direct relief to support a minimum level of living. At first, grants were not intended for families who had received loans. In practice grants were made not only to agricultural families not receiving loans nor eligible for them but were made to standard borrowers whose economic situation was such that minimum needs could not be met through loans. Gradually the grant came to be used as a tool for implementing rehabilitation. Reduction in grant funds during the war, however, meant the virtual elimination of such aid to standard borrowers.

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* Prepared by Olaf F. Larson and Paul J. Jehlik, Bur. of Agr. Econ., U. S. Dept. of Agr.

A unique feature of this form of aid, as incorporated into an agricultural program, is that it has been attached to the person, not to property, and has not been wholly conditional upon performance of some stipulated service.

Development of Grant Policies and Usages

Under FERA many of the advances, as already noted, were for subsistence. Had the family not been in agriculture, the aid might have been in the form of direct or work relief with no obligation to repay. In fact, many of such advances were later written off as uncollectible and were grants in effect. In November 1935, following transfer of the rehabilitation program to the Resettlement Administration, an order issued by the President provided for making emergency grants to farm families who were in need of emergency assistance and unable to get assistance from any other source. This was thus a category of public assistance of a direct relief nature reserved for people in agriculture.

Policies under Resettlement Administration.- Persons eligible for grants were farm owners, farm tenants, sharecroppers, farm laborers, and others, who, when last employed, obtained their livelihood primarily from farming operations and who were certified as eligible for public aid, provided that such persons fell within either one of the following classifications: (1) Persons who, in the opinion of the Resettlement Administration, were potential standard rehabilitation cases and were in need of immediate aid, the granting of which could not, without causing human suffering, be deferred until regular farm and home management plans had been fully developed or, were (2) persons in distress because of drought, flood, hail, tornadoes, and so forth, who needed only temporary aid to help them over the emergency, and who did not require plans for reorganizing their farm and home management operations. 1/ Emergency-loan cases who met the qualifications as to farm residence and dependence upon agriculture were also eligible. Regional directors were authorized to make grants to persons who were standard rehabilitation borrowers to enable them to meet unforeseen and extraordinary emergencies not anticipated in the farm and home management plans accepted as a basis for loans.

The original intent was to confine grants to families who were considered by the county committee to be potential rehabilitation cases. There were two major deviations. First, providing for grants for subsistence to standard borrowers permitted the acceptance of many farm-management plans which otherwise would not give reasonable promise of repayment. Second, grants were made to families who could never be considered rehabilitation borrowers because of their health or economic situation but who, because they gained the larger part of their livelihood from agriculture, were the responsibility of The Resettlement Administration by administrative agreement.

Grants were to meet emergency needs for food, fuel, clothing, medical service and other subsistence goods and services. At the be-

1/ RA Administration Order 92, November 2, 1935.

ginning of 1937, The Resettlement Administration assumed responsibility for about 250,000 drought cases dropped by the Works Progress Administration, by making subsistence grants upon application by the families. 2/

Policies under FSA.- The use of grants as a rehabilitation tool was developed under FSA as the purposes were broadened and as criteria were established for their use in balancing farm and home plans, and provision was made for "work grants." They were especially used to provide improved health and environmental sanitation facilities.

By 1940, grants were made to eligible families, including standard loan, for the following purposes: (1) Subsistence needs — including food, clothing, fuel, shelter, garden seed, garden fertilizer, implements and materials — determined by a grant budget or, for borrowers by the farm and home plans; (2) immediate medical care and emergency hospitalization essential to the rehabilitation of the families; 3/ (3) participation in health and medical associations in those areas served by approved associations, providing the applicants were not in a position to pay for medical care from their own resources during the period of membership covered by the grant — such grants could not exceed \$50 to a family in any one fiscal year; (4) sanitary facilities essential to family health including construction, repair, or change of location of sanitary privies; screening doors and windows of dwelling houses and milk houses; and construction or repair of wells, curbs, or covers of wells, cisterns, or springs to prevent pollution of the family water supply — such grants were not to exceed \$100 on any one farm in any fiscal year and were limited to areas designated by the regional director; (5) essential household equipment necessary to preserve health, such as pressure cookers, canning jars, sealers, cooking and heating stoves, bed springs, bed clothing and mattresses, and required supplies such as nails and lumber for making essential minor repairs to buildings; amounts not to exceed \$50 to any family any fiscal year; and (6) other emergency purposes specifically designated by the Administrator to meet such situations as flood, drought, crop failure, insect infestation, cyclone, hailstones, unseasonable freezes, and sharp drops in farm prices. 4/

Grants were not to be made (1) for goods or services which the family could supply out of current resources or available farm income, or where a loan for the purpose was justified, (2) to pay old debts or to make repayments on any indebtedness to the Government or a State RR Corporation, (3) for purposes which would permit a family to divert income, otherwise used to meet its needs, for the payment of excessive debts or inequitable rental — that is, debt and rental -

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2/ Informal memorandum of agreement between Works Progress Administration and Resettlement Administration, signed by Milo Perkins and Aubrey Williams, February 1937.
3/ Administration Letter 509, March 19, 1942 provided grants not in excess of \$100 would be made to correct remedial physical disabilities under certain conditions.
4/ FSA Instruction 741.1, Revised December 21, 1940.

adjustments were to be made before approving grants beyond an initial one for subsistence and immediate medical care, and (4) for purposes which had the effect of perpetuating undesirable land use situations or obstructing conservation practices. The provision for grants for sanitary purposes had been added in 1938, 5/ and for participation in medical and health associations and for household furnishings in 1940. 6/

Generally speaking, grants were to be made to standard loan borrowers only where it was impossible to work out a repayment schedule for such goods and services on the basis of the farm and home plan. This came to be known as using grants to "balance farm and home plans." By 1940, with the abatement of drought and depression, the major use of grants came to be for this balancing purpose. Grants under FSA continued to be made, however, to other than standard borrowers, to potential standard borrowers to whom loans could not be immediately made, and to nonborrowers living in rural areas who were victims of catastrophe. Other than open-country residence and employment in agriculture, the eligibility for a grant was being in need of public aid and having the capacity and willingness for self-help. Families in need of public aid but whose members were permanently incapacitated physically, and without capacity for self-help, were not eligible for a grant.

Grants were used to encourage cooperative activity. Some grants were made to cooperative association. More frequent was the encouragement of group use of facilities provided through grants and the cooperative purchase of subsistence and other goods. For example, where a grant was made for the purchase of a pressure cooker, a group of client families might be encouraged to make joint use of this facility, which many called the "precious" cooker.

In almost all instances, subsistence grants were limited to a maximum of $30 per month per family since any larger amount had to be approved at an administrative level above the county. Being less than the amount which could be earned on work relief, this limit appears to have encouraged some families to leave agriculture. Grant budgets for a family were prepared for a 3-month period, usually by the home-management supervisor. 7/ By 1940, a pledge of cooperation to per-

5/ Memorandum No. 796 by the Secretary of Agriculture, November 16, 1938.
6/ Secretary's Memorandum No. 850 by the Secretary of Agriculture, January 29, 1940.
7/ In the portion of Kansas within FSA Region VII, for a period beginning in September 1938 and ending about 1940, applications for grants for all but standard borrowers were investigated by the County Board of Public Welfare and approved by the county RR supervisor. Letter, Paul V. Benner, Director, Division of Public Assistance, State Department of Social Welfare of Kansas, to Olaf F. Larson, November 16, 1944; State Board of Social Welfare of Kansas to County Directors of Social Welfare, Div. L-118, September 12, 1938; Clair A. Bondurant, A Study of One Hundred Farm Security Administration Grant Families in Ellis County, Kansas, 1939, Sociology Ser. no. 1, Fort Hays Kansas State College Studies, 1941, p. 19. This practice for nonborrowers was also followed in other States of Region VII during the severe drought years when FSA had insufficient staff for adequate investigation of all applications; letter, L. A. White, FSA Region VII to Olaf F. Larson, December 26, 1944.

form certain work was generally required as a condition of a grant.

Beginning with the 1943 fiscal year the grant program was drastically curtailed. In that year, their use in balancing farm and home plans and for environmental sanitation was eliminated. Except for Puerto Rico, the use of grants was virtually eliminated for both borrowers and others beginning with the 1944 fiscal year. This fact in itself created a tendency to move "up the ladder" when selecting new borrowers, since farm plans had to show immediate ability to meet all debt repayments currently.

Grants to balance farm and home plans.- In using grants to balance farm and home plans, FSA was supporting its policy that reasonable cash expenses for family living had first and paramount claim against gross farm income. 8/ The criteria developed as a guide to making grants to standard loan borrowers, when the farm and home plan showed insufficient income to balance with expenses, stipulated such supplemental aid could be given provided (1) there was definite evidence in the plan, projected not more than 5 years, to show a financially self-supporting economic unit requiring no further subsidy would be developed; (dependable sources of outside income could be used in determining whether an economic unit would be developed), and (2) that the loan, grant, and supervision would promote maximum improvement of tenure arrangements, a high degree of self-sufficiency, use of approved soil conservation, land use and farm organization practices and the establishment of health, sanitation, and other living conditions necessary to successful rehabilitation. 9/

Instructions stressed such grants were to be used only as a temporary expedient and that the farm and home plans must incorporate the greatest use of debt adjustment, cooperative group services, and improved farm and home management practices to eliminate the need for grants "as soon as possible." The amount of grants for balancing of a plan, in addition to the regular limitations, could not exceed the minimum annual repayments required; tha t is, depreciation, interest on the loan for operating capital, and money borrowed for annually recurring expenses. Otherwise, in addition to supporting the family's level of living, the grant would increase the family's equity in their operating capital.

Work-grants.- Not until 1938 was policy formulated to make grants a tool of rehabilitation. The policy then announced was to "encourage emergency grant clients to produce their own subsistence with the facilities and resources which are or can be made available, and to carry out recommended conservation practices on the farms and in their homes." By 1940, following experience in the noncommercial experimental counties and on resettlement projects, the general policy was adopted of requiring all grant recipients to perform certain agreed work on the farms they occupied or in behalf of an association composed of grant clients. In the latter instance, the work had to

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8/ Hearings....Pursuant to H. R. 119, Part 3, p. 984.
9/ Provisions added September 25, 1940 to FSA Instruction 731.1.

be of such nature as to benefit directly all association members. 10/ The theory was that such an arrangement, creating the obligation on the part of the family to do work contributing to its own welfare, would avoid the presumable demoralizing effects of a dole type of payment.

The written agreement or "Pledge of Cooperation" signed by the grant applicant and his wife specified as definitely as possible the improvements to be made and the time limit for the work. Only such work as could be done personally by the family with simple equipment could be required. Examples of such work were setting out of gardens, fencing gardens, soil improvement, land clearing, repairing buildings and fences, painting buildings, cleaning farm yards, developing irrigation systems for gardens, constructing storage cellars, contour furrowing, eradication of noxious weeds, spreading manure, keeping production records, improving home interiors, improving sanitary facilities, and constructing soil and water conservation facilities.

County supervisors could postpone or waive the work requirement in case of sickness or for a similar reason within the family. The regional director could also waive the requirement when emergency conditions, such as floods, made performance of such work impracticable.

Whenever a work grant would result in the improvement of a rented farm, for example through the construction of a privy or the eradication of noxious weeds, the supervisor was obligated to assist the client in obtaining improved tenure arrangements that would compensate him for his efforts. This might take the form of credit on rental payments for the improvement, tenure until the value of the improvement was realized, or permission to take removable improvements upon surrendering occupancy.

The size of the grant was not to be correlated with the amount of work, but to be based entirely upon the need of the family.

In paying farm families to do something which directly benefited themselves, the work-grant agreement was akin to the AAA payments to all farmers for improved farming practices. As with such payments, too, there were benefits — like those from improved environmental sanitation and soil conservation work — which "spilled over" to benefit the whole community.

Use in special areas.-- In connection with the noncommercial 10-county experiment, supervisors were to have wide discretion in the use of grants. Later instructions provided grants up to $50 per person or $300 per family, whichever was less, could be approved in any one fiscal year for broader purposes than normally authorized. 11/ Freer use of grants was also made in designated "special areas" than under regular procedure. In some areas what were called "pre-standard" cases were grant cases with a farm plan, being tested for their suitability for a standard loan.

10/ FSA Instruction 741.1, Revised December 21, 1940. Also see Work Grants, Farm Sec. Admin. (n.d.)
11/ Administration Letter 509, March 19, 1942.

Number and Amount of Grants

Families aided.- From the beginning of grant aid in November 1935 through December 1943, such help was given to 492,900 borrower-families (all types of borrowers) and 622,600 "grant only" families (table 54, Appendix). Data are not available to show the number or proportion of standard loan borrowers throughout this period who received grants or the total amount going to standard loan borrowers as a separate group.

Borrowers of all types receiving grants were most numerous in Region VII; grant-only families were most numerous in Region XI. As some families received only a single subsistence grant of less than $30 or a small grant to participate in a medical care group, while others received grants over a considerable period, the number of families considered by itself does not have much significance in appraising regional variations in the use of grants.

The peak in grant activity was during the drought years of 1936, 1937, and 1938, as indicated by number of recipients and number and amount of grant payments, followed by a tapering off and finally an almost complete disappearance. Data available do not show the year-to-year trends in the grants to standard borrowers. It is evident, however, that grants to such borrowers comprised an increasing proportion of the total number after the drought emergency subsided and their use for balancing farm and home plans was pushed. For example, for all the years through June 1941, less than half of the families receiving grants were also borrowers whereas for the single year ending in June 1941, 83 percent were borrowers 12/ and in the following year, 77 percent were borrowers.

In addition to individual families, some associations of families were made grants.

Total amount of grants.- Through December 1943, grants to individuals totaled $136,491,000. These were disbursed through about 7,000,000 individual payments averaging about $20 each; subsistence payments were made monthly. About $15,000,000 more was accounted for by grants to groups and associations and by grant funds used for direct food purchases and food stamps which were distributed to families. Total grant expenditures through June 1943 for all purposes were $151,610,000 (table 55, Appendix). Only a few thousand dollars of corporation trust funds were used for grants; the balance came from appropriations to RA and FSA.

Expenditures for grants were at a peak during the 1937 fiscal year. Through the 1939 fiscal year, half of all such expenditures were in Region VII, reflecting the distress caused in the Great Plains by drought. Relatively high expenditures in Region IX, considering the number of borrowers, may be accounted for by the inflow of "okies" as migratory agricultural workers. The heavy concentration of grant

12/ Based upon data in Rural Rehabilitation Activities, FSA Monthly Report, October 31, 1941, p. 12.

AMOUNT OF RURAL REHABILITATION GRANTS TO INDIVIDUALS THROUGH DECEMBER 31, 1943

SOURCE: FSA-FC 63, REGISTER OF ALLOTMENT LEDGER TRANSACTIONS (QUARTERLY REPORT OF GRANT CERTIFICATIONS, BY COUNTIES)

U. S. DEPARTMENT OF AGRICULTURE

NEG. 45326 BUREAU OF AGRICULTURAL ECONOMICS

funds in Region VII, particularly in North and South Dakota, is brought out by the map shown as figure 8.

The making of grants followed a definite seasonal pattern, the number of payments being most numerous in late winter and early spring when farm income in many areas was at a low ebb and savings from the previous crop season were depleted. 13/ Fewest payments were made during midsummer.

Data for the 1942 fiscal year indicates that the majority of expenditures for grants to individuals were for subsistence purposes and that the majority of the grants to groups were to health associations, predominantly for migratory laborers.

Grants to Standard Loan Borrowers

Among standard borrowers active as of June 30, 1940, nearly three-fifths, 58 percent, were reported as having received one or more grants by that date. 14/ In Region VII, 80 percent of the borrowers had received such aids while the lowest proportions were found in Regions I, III, IV, and XI where about two-fifths of the borrowers had received grants. Southern Regions V, VI, and VIII followed VII in frequency, with at least 7 out of 10 of their borrowers having at least 1 grant. For the 1940 active group receiving this help, the average cumulative amount was estimated by FSA at $97 with a range from $320 in Region VII to $30 in Region VI. Average amounts for all Southern Regions were at the bottom of the range, although the percentages of borrowers receiving were high.

Of a sample of the borrowers active in 1941, 29 percent had received grants during that particular year in an amount averaging $76. 15/ In that year, Region V aided twice as large a proportion of borrowers, 62 percent, as any other region.

Considering the borrowers accepted during 1936-39 included in the BAE study, nearly one-half of those who received their first loan during 1936-37 had received grants since acceptance and by March 1939, two-fifths of the families who received their first loan during 1937-38 and one-fifth of those accepted during 1938-39 had received grants during the same period of time (table 56, Appendix). The heavy use of grants in Regions VII and V is also shown by this data.

Frequency of grants.- Data for the 1936-39 group show that the chances were at least even that if there were grants, such help was limited to a single year. Among the group accepted during 1936-37, of whom half received no grants, one-fourth had had such help during only 1 year, 16 percent during 2, and only 9 percent during 3 years by the spring

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13/ Theodore E. Whiting and T. J. Woofter, Jr., Summary of Relief and Federal Work Program Statistics, 1933-1940, Div. of Res. and Stat., Work Proj. Admin., Washington, D. C. 1941, pp. 46-53.
14/ Grants to Rural Rehabilitation Borrowers FSA Program Analysis Rep. no. 16, Mar. 4, 1941.
15/ Based upon FSA 1941 Family Progress Report.

of 1939 (table 57, Appendix). Half of the comparable group of borrowers in Region VII had received grants every year, whereas in Region I, representing areas with a restricted use of this aid, only 4 percent were so helped for 3 years running.

The pattern of frequency is better illustrated by the information in table 58, Appendix. Again using the group accepted during 1936-37 as an example, 14 percent received grants only during that year, 11 percent received grants that year and 1937-38, 9 percent received grants all 3 years, 1 percent received grants the first year, and then skipped to the third year, 5 percent received grants only in the second year, 5 percent only in the third year, and 4 percent in both the second and third years. This variety of time combinations reflects the fact that some borrowers needed just a little help to get on a paying basis, some needed help for several years, and some had an emergency situation after being on the program which they could not meet out of current income.

A year-by-year tapering off of the need for grants is indicated by the experience with the borrowers new in 1936-37, for 35 percent were aided during that first year, 28 percent during the second year, and 19 percent during the third year, after getting a standard loan. The data also indicate the progressive selection of borrowers with more resources at the time of acceptance as 35 percent of the 1936-37 group but only 29 percent of the 1937-38, and 20 percent of the 1938-39 groups received grants during their first year on the standard loan program. This latter tendency is also supported by the FSA report for all borrowers active in 1938, since only 25 percent of those new on the program that year received grants as compared with 27 and 33 percent who had been on the program 2 and 3 years respectively.

Variations in amount.- Even for the borrowers accepted during 1936-37 and who thus had between 2 and 3 years by the spring of 1939 during which to receive grants, the amount of this supplemental aid was relatively small. In addition to the half who received no grants, nearly one-third received less than $100, only 18 percent $100 or more, only 8 percent $200 or more and only 1 percent $500 or more. The large amounts were concentrated in Regions VII and X, areas of heavy distress from drought and of relatively high standards of living. In the South, especially in VI, where grants were made the amount was restricted. The following summary for the 1936-37 group included in the BAE study classifies borrowers by the amount of grants received between March 1936 and the end of February 1939 and illustrates regional variations in the amount of grants.

Amount of grants	U. S. Percent	Region VI Percent	Region VII Percent
None	51.2	51.9	11.9
$ 1 - 49	18.0	41.1	11.9
50 - 99	12.9	6.5	11.9
100 - 199	10.2	0.5	18.6
200 - 299	3.6	—	15.3
300 - 399	1.9	—	12.1
400 - 499	1.1	—	8.4
500 and over	1.1	—	9.9
Total	100.0	100.0	100.0

Grants related to characteristics of standard borrowers.- The BAE analysis indicated the amount of grants was not closely related to the age nor previous tenure of the borrower.

Where grants were made, they did not completely replace loans for family expenses. In fact, for the 1936-39 group, three-fifths of those receiving grants also had money for family expenses included in their loans.

Borrowers paying up their loans quickly were less likely to receive grants than those who were shifted over to an inactive status. Of the 1936-39 group paid-up by March 1939, only 28 percent had received any grants as compared with 43 percent of those inactive by that date. Of those receiving grants the average amount was $52 for the inactive and $44 for the paid-up borrowers.

In the 4 Southern Regions combined, more colored than white active borrowers were made grants during 1941, 51 percent as compared with 31 percent, but the average amount during the year was about the same for both.

At least among 1941 actives, grants were directly associated with the supervisory classification. The percentage of A, B, C, and D borrowers receiving grants was 13, 24, 33, and 39, respectively. The average amount of grants for those receiving them increased about $5 for each group from A through D.

Evidence that grants were generally used to buttress the living of borrowers somewhat in relation to need is supplied by data for borrowers active in 1939. When classified according to net income during the year before acceptance, the average amount of grants received since acceptance (including those receiving none) was largest for the lowest income group and progressively smaller for each higher income group. This general relationship prevailed within each region but borrowers in the regions with the "lowest" low income status did not receive more grants than those in the "highest" low income status.

Grants in relation to repayments.- Policy clearly states that grants should not be used to increase the equity of a borrower. To the extent grants went for purposes which the borrower would not have procured with his own funds, such as membership in a medical care group or for sanitary facilities, the effect on loan repayments could be only indirect, such as through the fact that improved health resulting from the facility or service made possible by the grant resulted, in turn, in improved debt-paying ability. On the other hand, the effect was sometimes to increase repayments directly. This was true to the extent that grants were made for such purposes as family living and at such a time that otherwise the borrower would have used his income before paying on his loan, and thereby released funds for debt payment.

The extent of this effect is not ascertainable. That in the aggregate it was minor is indicated by the fact that generally — barring drought or other continued catastrophe — grants dropped off rapidly after the first year on the standard program, whereas repayments on

recoverable goods — since 1938 — tended to be pushed toward the latter part of the permissible maturity period. That the effect was minor is also indicated by comparing repayments with the amount of grants for all purposes. For example, for the borrowers accepted during 1936-37 included in the BAE study, the grants received between March 1937 and February 1939 were compared with repayments during the same time; this allowed for first year adjustments helped out by grants. It should be noted that this period includes drought years. It was found that 54 percent had repayments and no grants, 11 percent had neither repayments nor grants, 30 percent had grants and repayments, and 4 percent had grants but no repayments. Grants exceeded repayments for only 6 percent of these borrowers during this period. Nearly two-fifths of those having grants and no repayments were in Region VII, hard hit by drought. Likewise, more than one-third of those whose grants exceeded repayments were from Region VII. The comparable record for borrowers accepted during 1937-38 was better, despite the 1938 drought and lower farm prices, probably reflecting the fact that when they were accepted they were somewhat better off than the former group. Among the 1936-39 borrowers paid up by the end of February 1939, only 12 percent received any grants after their first year in the program and only 1 percent had grants larger than their repayments. In contrast, 24 percent of the inactive groups received grants and made repayments and 3 percent had grants larger than the amount paid back.

Grants had a larger relation to the repayments of the lower income than to the repayments of the higher income groups as might be expected from (a) the general use of grants in relation to the need of borrowers and (b) the fact that loans, and therefore repayments, were smaller for the lower than the higher income groups. 16/

Principles

On the basis of (a) modifications in the use of grants made over time by the rehabilitation agencies as a result of experience and (b) observations of the use of grants in the 10-county noncommercial experiment, the following conclusions are probably warranted concerning the use of grants to implement the rehabilitation of standard borrowers.

1. The lower the economic status of the borrower at the time of acceptance, the more flexible grant procedure should be and the greater the use which should be made of grants unless the borrower is started off with an economic unit or unless repayments for even annually recurring expenses are waived while resources are being built up — provided the level of living is to be maintained at a physically healthful and socially desirable level.

2. The amount of grant can best be determined by the budget principle used in balancing farm and home plans.

16/ Based upon FSA 1939 Family Program Report.

3. To the maximum degree practicable, the making of grants should be conditional upon the performance of constructive work which will promote the rehabilitation of the family and, at least indirectly, benefit the community if there is to be the least possible conflict with contemporary attitudes and values with respect to this type of public assistance.

Problems and Issues

One of the major problems in connection with grants as a tool to help standard loan families has been the attitudes of both recipients and the community. On the one hand, recipients with a "relief psychology" were somewhat likely to look upon grants as "free money." Others resisted them as being charity. The tendency of the community to "look down" upon grant recipients is partly a reflection of traditional attitudes attributing a weakness or sin to needy persons, and partly the lack of acceptance among us of the idea of attaching benefits to the person without exacting as a condition the performance of some service obviously and directly in behalf of the general welfare. The work-grant policy was an attempt to cope with these attitudes. 17/

Dissatisfaction with grants may possibly be increased to the extent they are considered identical with relief because of the restricted amounts allowed. For example, instances have been observed where rural residents usually engaged in agriculture preferred work relief to grants because the former gave a larger cash income.

An overly free use of grants by a supervisor may indicate laxity, following the line of least resistance, rather than positively developing the resourcefulness of the borrower and applying other but difficult techniques.

The basic issues appear to be (1) the level of living which grants will be used to support and (2) whether the use of grants to borrowers will be permitted which involves work on the family's own farm or in its own home for its own direct benefit, and where the amount of work is not correlated with the size of the grant. If such use is not permitted the alternatives must be explored of (a) selecting only families who need no grants, (b) eliminating any floor under the level of living, (c) making loans sufficiently large to put families immediately on a paying basis, or (d) making loans for purposes and in the circumstances for which grants have been made, knowing the chances for repayment are slight.

17/ There is some indication that borrowers receiving grants were more "dissatisfied" with aspects of their life than those not receiving them. See Edgar C. McVoy and Lowry Nelson, Satisfactions in Living: Farm versus Village, Minn. Agr. Expt. Sta., Bul. 370, June 1943, table 8.

CHAPTER 10

NEIGHBORHOOD ACTION GROUPS *

In addition to calling groups of borrowers together for supervisory purposes such as receiving instruction or making out farm and home plans, group activity as a rehabilitation tool took three distinct forms: (1) Neighborhood "action," also called discussion or study groups, (2) group services, sometimes called "simple" services, and (3) cooperative associations.

Although the action groups were the latest and least widely used of the three types, logically they should have been the forerunner of more formal cooperative activity according to the usual theory as to sound and democratic development of cooperatives. Care must be taken to distinguish between neighborhood action or study groups and group supervision. In the former the supervisor plays an indirect part, the group being run by and for the families; in the latter the supervisor is the leader and serves directly in this role.

Definition.- Neighborhood action groups were defined as "made up of 6 or 8 families who meet regularly in each other's homes to discuss common problems of their neighborhood. Members elect a permanent chairman from among themselves. The families themselves call the meetings and usually the supervisor attends only on invitation from the group. And, rather than dominate the meeting, he is present only as an advisor. The families themselves are the principal speakers." 1/ In practice, some groups were composed of less than 6 or more than 8 families. The descriptive term "action" derived from the intention that out of discussion and understanding of mutual problems, a decision for joint action to solve these problems might result if need was felt to be sufficient.

Development.- The study action group technique was not first developed by the rehabilitation agency nor has its use been restricted to this agency. Rather it is a tool adopted to meet the special needs of rehabilitation families. The agricultural extension service has long organized local groups of farm men and women for study purposes. Farm organizations, the Ohio Farm Bureau Federation for example, have stimulated the development of neighborhood "advisory councils" which meet periodically to discuss economic problems and carry on activities of mutual interest. 2/ Other farm organizations such as the Farmers' Union and the Grange use the discussion method in their local groups.

First use in FSA of the neighborhood action group method apparently was made in Region VII about 1939, through personnel with a background in the cooperative movement and with some "tying in" to the

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1/ How Neighborhoods and Communities Aid Farm Security Administration Group Programs, FSA Publication 108, January 1942, p. 1.

2/ Farm Security Administration Cooperative Program, statement prepared by FSA for Hearings...Pursuant to H.Res. 119.

contemporary developments in land use planning. By 1941, personnel at the national level with experience in cooperative enterprises propounded the general use in the agency of this technique and it was introduced to all regions during that year. Cooperation of BAE personnel skilled in community organization was enlisted to train regional, State and area personnel in neighborhood and community delineation 3/ and in giving an understanding of the social processes involved in successful neighborhood group discussion and organization. 4/

It should be pointed out that supervisors encouraged rehabilitation families to take part in group activities already organized. But of course the mere presence of such groups did not insure participation by low-income families for low-income status is associated with social isolation from organized group activity. For example, among borrowers active in 1941, 1 in 4 of the heads took part in no community activity and 42 percent in only 1, usually church or Sunday school. 5/ In general, the higher the income the greater the likelihood of some participation, although the relationship may have been more marked if religious activity were excluded. It may be that low-income people do not participate because they are not invited, or are made to feel they don't "belong," or are "uncomfortable" if they do go. There appears to be some preference on the part of low-income farmers to meet in their own groups and discuss their own problems. In areas that are predominantly low in income there may be a dearth of opportunity for participation because of lack of organized activity.

The organization of neighborhood action groups was encouraged for several reasons. (1) The limited participation of borrowers in community activities meant a lack of integration into the life of the neighborhood and community, a lack of participation in affairs of mutual concern as citizens of a democracy — the attainment of which were objectives of rehabilitation — whereas participation in the neighborhood group of low-income farmers was seen as opening the door to achieving these goals. (2) Acceptance of the assumption that low-income families have the potentialities to solve most of their problems led to considering the group method as a way by which such families could uncover their common problems and work out a solution which would be helping them rehabilitate themselves. (3) Past experience with the rehabilitation and other cooperatives and acceptance of cooperative theory were grounds for the conviction that the soundest cooperatives were those evolving as a social process out of the neighborhood discussion groups and utilizing natural social groupings as a geographic basis of operation.

3/ Letter, C. B. Baldwin, Administrator, to all regional directors, Sept. 25, 1941.

4/ FSA Pub. 108, op.cit. was prepared by BAE; see also A. H. Anderson, The Neighborhood Group Approach in the War Effort, Bur. of Agr. Econ., Lincoln, Nebraska, July 1943; Suggestions for Preparation of Neighborhood and Community Maps, Farm Security Administration, Florida.

5/ Community Activities of FSA Families, Release No. 7, RR 1941 Family Progress Report, Farm Sec. Admin., Sept. 8, 1942.

Particular emphasis was put on this technique as a wartime measure to utilize better the supervisors' time and to discuss wartime food production problems. 6/ Early in 1945, however, organization of new groups and servicing of old ones ceased by administrative decision.

Number and distribution.- Specific data as to the number of neighborhood action groups that have been established through the encouragement of FSA are not available. Estimates placed the number active during 1944 at 4,000; the greater part of them were in Region VI. The neighborhood action group was not adequately defined for purposes of accurate enumeration. They varied in their activity and their persistence. Some supervisors considered an active group only one which resulted in cooperative group services. Some groups had a few meetings, then lapsed. Another enumerative complication was that of having the number or the proportion of the membership which must be borrowers before the group was identified as an FSA neighborhood action group. There was also confusion as to when a group functions as a supervisory group and when as a neighborhood action group, since the same group of families might be meeting in both capacities.

Recommended organization and procedure.- The typical major steps in putting the neighborhood action group technique into practice in a county were as follows.

1. The county was delineated into natural neighborhoods and communities so as to locate borrowers by these social groups. In a biracial situation this might involve separate delineations for each group if they were interspersed within same area, but did not meet together as a common group.

2. From each neighborhood a borrower was selected who would act as organization leader for his neighborhood.

3. Organization leaders were called together at the community or county center for instruction by the supervisor as to purposes of the proposed groups and the part of the temporary leader in the first neighborhood meeting.

4. The leader invited, usually to his home, the neighbors he wanted for the first meeting. Usually the supervisor acted as discussion leader at the first meeting.

5. At this or a later meeting a permanent chairman and recording secretary were elected.

6. Later meetings were held at the initiative of the group, called by the leader with the supervisor's attendance depending upon whether he was invited. Minutes of the meeting were sent to the county supervisor to keep him informed of needs, problems, and recommendations of the group.

6/ See FSA Leaflets - for Action series beginning Nov. 5, 1942, prepared as study guides for neighborhood action groups.

7. Neighborhood groups might elect delegates to attend community or county meetings for formulating plans for action on a larger-than-neighborhood basis, for discussion or for instruction. 7/

In order to achieve the full effectiveness of these groups, FSA recommended the following basic principles in their organization and servicing.

1. The "natural grouping" of neighbors should be followed as closely as possible.

2. The group must select its own leaders.

3. Groups must plan their own program on the basis of their immediate problems. Through group discussion they come to recognize farm and home plans, record books, etc., as useful tools in working out solutions to farm problems.

4. The elected leader must be trained to draw upon resources either within the group or outside the group, in finding solutions. His principal function is to place the question before the group rather than to attempt to answer it himself. 8/

First-hand observation of a dozen neighborhood action groups in two States of one region during the early stages of organization indicated the soundness of these principles. 9/

7/ Basic steps and principles as a guide are given in the following pamphlets prepared by FSA: Organizing Neighborhood Action Groups; Helping Neighborhood Action Groups Help Themselves; Finding and Training the Neighborhood Action Group Leader, Planning the Program for Neighborhood Action Group Meetings; and Group Leadership, Plan Together, Work Together, Play Together.

8/ Cooperative Division Letter No. 4, U. S. Farm Security Administration, Washington, Dec. 10, 1942, p. 7.

9/ For first-hand, almost verbatim, reports of neighborhood action group meetings, see T. Wilson Longmore's two reports, Neighborhood Discussion Groups Among Low Income Farm Families in Oklahoma and Neighborhood Discussion Groups Among Low Income Farm Families in Texas, Bur. of Agr. Econ., Little Rock, Jan. 1943; T. G. Standing and T. Wilson Longmore, Neighborhood Discussion Groups in Relation to the Farm Security Administration Program in Delaware County, Oklahoma, Bur. of Agr. Econ., Little Rock, Aug. 1942; Neighborhood Discussion Groups, FSA Region VIII (prepared by BAE, Little Rock in cooperation with FSA Region VIII) n.d. See also Joe J. King, "Small Farmers of the Pacific Northwest Organize Neighborhood Discussion Groups," Rural Sociology, vol. 9, no. 1, March 1944, pp. 38-44.

The need for analysis of the neighborhood situation before starting the program was evident. Where the program was "kicked off" with a weak neighborhood or a group not conforming to a "natural" neighborhood, the families did not feel a sense of "belonging," and were reluctant to "open up" in full discussion, the meeting dragged, and supervisors were discouraged with the method. Success, on the other hand, generated confidence of both families and supervisors. There was a great need for understanding that any families in the neighborhood could participate and that being an agency borrower was not a prerequisite. The supervisors needed to be trained to recognize a neighborhood, to appreciate the potentialities of the approach, to know how to demonstrate group discussion methods, how to train the neighborhood leaders, and how to reveal to the families the resources of action by their own small group.

Other suggestions growing out of these initial observations were similar to those for holding any good group discussion, only they become even more important in getting people to talk freely who have been socially isolated, who lack confidence in themselves, and who may be participating as a "favor" or out of respect to the supervisor. Some of these suggestions follow. Keep the group small, usually not more than 8 families, so as to get free discussion; meet in the homes, rather than the schoolhouse or other centers, so as to preserve maximum informality; have a physical arrangement of seating facilities to encourage informality, making all participants equal rather than having one standing out as leader; have meetings only when there is a need and then tie it in with the demands of the farm work, to encourage attendance; expect folks to be "talked out" in about 2 hours but allow another hour for "ice-breakers," refreshments, etc; at the initial stages have the host to the group serve as leader, with the supervisor or other outsiders acting only as "participant observers" and as consultants, so that the families feel that it is their own meeting; have only a broad plan for the conduct of the meeting in advance, so that discussion may follow channels of interest; and delay election of a permanent leader until the second or third meeting.

In general the groups were found to have vitality as they followed these general rules, as they served a real need of the people, and as they resulted in some form of action felt by the families to be useful to them.

<u>Problems encountered</u>.- Observation of neighborhood groups just getting started in one region <u>10/</u> and study of the situation in a few counties of two other regions <u>11/</u> not more than a year after groups

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<u>10/</u> Longmore, <u>Ibid</u>.
<u>11/</u> T. G. Standing and Herbert Pryor, <u>Community and Cooperative Services and Discussion Groups, West Carroll Parish, Louisiana</u>, Bur. of Agr. Econ., Little Rock, Jan. 1943. T. Wilson Longmore, <u>Neighborhood Discussion Groups, in Relation to the FSA Program in Desha County, Arkansas, 1942</u>, Bur. of Agr. Econ., Little Rock, (1943 ?); Herbert Pryor, <u>Community and Cooperative Services and Discussion Groups, Acadia Parish, Louisiana</u>, Bur. of Agr. Econ., Little Rock, Mar. 1943; Roy L. Roberts, <u>Neighborhood Action Groups in Southern Illinois</u>, Bur. of Agr. Econ., Apr. 1943; Waller Wynne, Jr. <u>Report on Field Study of</u> (Cont'd)

were first started, serves to point up some of the problems that arose in the early experience with this rehabilitation tool.

Some problems were due to the lack of training given supervisory personnel. Examples of problems on the part of some supervisors included the lack of their understanding of the objectives of the neighborhood action group, of the differences between such groups and groups for supervisory purposes, of the relation of these neighborhood groups to those sponsored by the Extension Service, of the characteristics of the community and neighborhood and how to discover them, of how to demonstrate a group discussion meeting, and of how to train neighborhood leaders. Lack of preparedness on the part of leaders for their tasks reflected deficiencies on the part of supervisors. In-service training was given field personnel in an effort to meet these problems. For example, regional office personnel trained the area specialist, the area specialist trained the district supervisor and the district supervisor trained the county supervisors. As to the relation with extension groups, if borrowers were participants so there was no need for such new activity, they were not to be organized. Generally speaking, only a small percentage of borrowers participated in extension activities. The relation most likely to develop, under favorable circumstances, was that illustrated by a number of cases where out of the neighborhood group grew a request for extension assistance. 12/

Some supervisors had a lack of confidence in the ability of the people to think and plan on the group level. Some made the gatherings supervisors' meetings rather than neighborhood-action group meetings. Some thought the groups were to include only agency borrowers and, because of lack of the concentration of clients, disregarded natural neighborhood lines in order to get enough families. Where this was done, families wondered why nonborrowers couldn't come since they were their neighbors.

It was sometimes difficult to get a group started, and to get attendance after it was started. Reasons included failure to follow the natural groupings, lack of feeling of need on the part of families, mobility and tenure insecurity which discouraged participation, lack of established patterns of neighborliness, tire and gas rationing which interfered with leader training, and looking upon this as just "another Government program." Borrowers would attend because they thought they were doing something _for_ the supervisor. The supervisor was depended upon to keep things going. Groups did not always elect the best or natural leaders; sometimes they merely confirmed the temporary ones appointed by the supervisor although that may not have been their free choice.

11/ (Cont'd.) FSA Community and Cooperative Service Program, Bradley County, Arkansas, August 1942, Bur. of Agr. Econ., Washington, n.d.; Waller Wynne, Jr. Report on Field Study of the Neighborhood Action Group Program in a County in Southern Illinois, Bur. of Agr. Econ., Washington, Apr. 1943.

12/ Longmore, Neighborhood Discussion Groups Among Low Income Farm Families in Oklahoma, op.cit., p. 33.

Getting the program under way was retarded somewhat because of the simultaneous accent on food production.

The limited observations indicate that (a) small farmers were more likely to cooperate in this type of informal activity at the neighborhood level while large scale farmers were likely to think of cooperation on a more formal basis at a county or higher level; (b) Negroes showed tendencies to work together more readily at the neighborhood level than the white families; and (c) the borrowers taking the most active part were those considered as the most promising and progressive in the area.

Where sound methods of organization were followed, neighborhood action groups, on the basis of limited observation, demonstrated their practical usefulness as a tool to overcome social isolation, stimulate group action, build a firm foundation for cooperative activity, and to enable supervisory personnel to give more service.

CHAPTER 11

GROUP SERVICES *

Beginning early in the program, borrowers were encouraged to work with their neighbors in acquiring and using such items as machinery and better herd sires which they could not afford to own individually. This was seen as a way to keep capital investments in line with the size of operations and to permit small farmers to benefit from the use of modern production methods and equipment. The pattern, of course, has been of long standing among many farmers of the United States.

These "group services" for which loans were made or which were assisted in other ways were of two types, (a) joint ownership and (b) master owner.

"Joint ownership" services were those provided through the pooling of funds of two or more individuals to acquire and own jointly a piece of equipment or other facility. Loans were usually made in equal amounts to each participant. An example would be a loan made to enable a group of 10 farmers to buy a sire costing $250. A contribution of $25 would be needed from each participant and individual loans of $25 would be made to those who required financial aid. The $250 thus obtained would be pooled for the purchase. An agreement as to the service fees to be charged and the amount of service required each year would be worked out among the participants before the loans were obtained. Generally, in the case of this type of ownership, one of the joint owners was selected as a manager of the group facility. Such a group was seldom incorporated.

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Master owner services were those in which an individual acquired, owned, and operated in his own name a piece of equipment or other facility for the service of two or more individuals. For example, a $250 loan for a sire might be obtained by one man but, before the advance of the loan funds, he would enter into agreements with others who would agree to use the service, pay stipulated fees, and estimate the service required.

The master owner is a community — not a cooperative — service. The joint owner has most of the characteristics of a cooperative. Most group services received loans from the rehabilitation agency. There were some "no fund" groups, however, for which members themselves supplied all the financing, but which had some assistance or supervision from the agency.

Policy.- The purpose of group services, as well as of cooperative associations, was "to facilitate the working together of rural rehabilitation and low income families in groups to solve their mutual problems of rehabilitation." 1/ An earlier statement of purpose said the loans were to make available "facilities and services which may be prohibitive or economically inadvisable on a strictly individual basis, and to enable them to utilize technological improvements which would not otherwise be available, and to provide for the maximum use of such facilities and services." 2/

Eligibility for a loan to an individual for group services was the same as for a standard loan. Congressional prohibitions on use of rehabilitation funds for certain cooperative activities did not apply to the joint or master owner services. Families other than borrowers and other than low-income families eligible for a standard loan might participate in a group service in order to bring about maximum use of the service, to keep down costs, and to contribute to successful operation, provided such others made a proportionate contribution toward the establishment and maintenance of the service.

Policy was to encourage borrowers to participate in existing services wherever these met the needs satisfactorily. Before approval of a loan, an operating plan for the service for the first year was required. One was also prepared each year thereafter as long as there was an indebtedness to the Government. This plan included a budget of income and expenses to show sufficient income to meet the operating costs, to retire indebtedness in an orderly manner, and to set aside adequate reserves for a sound and permanent program. In other words, the service was to show evidence of being economically sound. Beginning in 1941 plans were also supposed to include a statement of educational activities to be emphasized by the group during the year. Assurance of competent and responsible management was required.

As a general policy the agency rendered supervisory assistance only, but reserved the right to approve the management and operating pol-

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1/ FSA Instruction 831.1, July 10, 1941.
2/ FSA Instruction 734.1, October 25, 1938.

tect the financial interests of the Government. Joint ownership loans were supported by a simple partnership agreement.

The 1941 instructions stated that of the total capital contribution required of each individual some portion should be made by the individual out of his own resources; this needed not necessarily be in cash if the circumstances permitted a contribution of labor, materials, or other items of value. However, the instructions also stated that individuals "who are unable to contribute out of their own resources the entire amount of capital required for membership in the association, as determined by the approving official of the FSA, may obtain loans, if otherwise justified, to enable them to contribute that portion of the required capital contribution which it is impossible for them to contribute out of their own resources." This policy applied particularly to cooperative associations but had implications for group services.

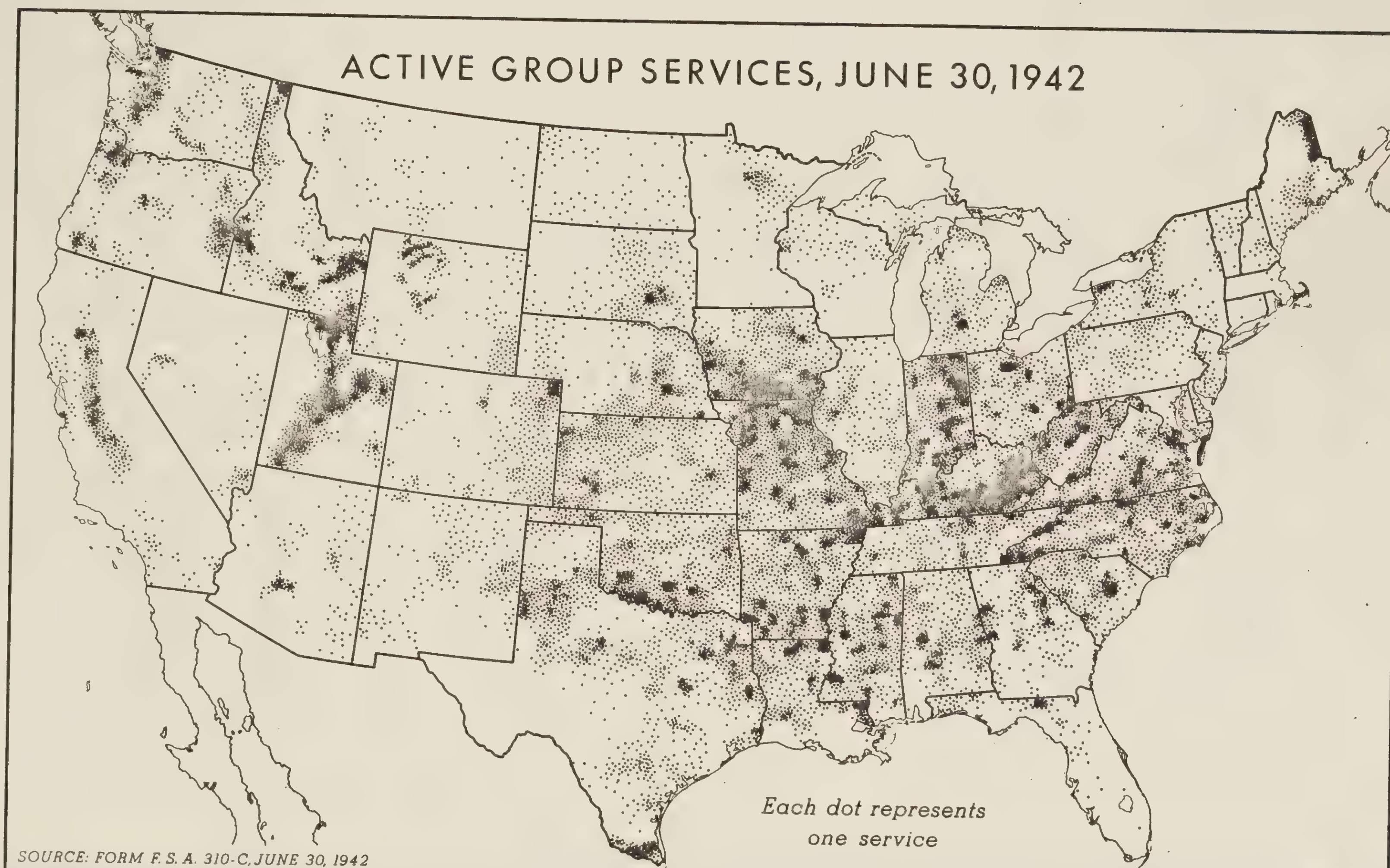
In general, the terms for loans to individuals for group services were the same as for standard loans (see Chap. 8). In the case of joint ownership each borrower mortgaged his undivided interest in the property as security and was responsible for repaying only his own loan. Interest on joint borrower loans was 3 percent but, after 1941, was 5 percent on master borrower loans. Administrative influence at one time was exerted against making the latter type of loans when services could be established on a joint ownership basis, the instructions saying "Master-borrower loans shall be made only as an exception and not as a rule." The stress on joint ownership loans was made because they provided the service under the "joint and equitable control" of the borrowers whereas in the case of the master owner one person owned the entire service and might, at his discretion, exercise full control over it.3/

Recommended organization and procedure.- The principle that group services should evolve as a social process born in and nurtured by neighborhood discussion groups was the principal guide of field personnel in organizing such services after about 1941. Before that time there was less recognition of the desirability of basic educational work as a foundation for the services. The steps that FSA recommended be generally observed in developing sound group services include:

1. Analyze need for new group services through appraising individual family needs, seeking specific expressions of individual need, obtaining views of county committee and other citizens, finding out needs indicated by neighborhood action groups.

2. Call meeting of interested persons.

3/ Supervisors' Guide for Community and Cooperative Services, Farm Sec. Admin. Washington, 1942, pp. 37-38.



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3. Discussion by group to bring out their common needs and methods of solving them.

4. Decision by group as to whether they want to work together in meeting the need.

5. Development of definite plan of action, including type of organization, financing arrangements, and details of organization and operation. 4/

These same steps applied to cooperative associations.

Development, number, and distribution.- Although cooperative organization was promoted under FERA, the group service form of activity started during the first year under Resettlement. Such services were pushed strongly under FSA, the belief being that this was one way of supporting the small, family-size farm. 5/ Through them farmers could get equipment and services that they could not afford to buy alone. This was seen as a means of meeting the competition and presumed economic advantages of large-scale farming.

The program gathered momentum, reaching a high point during the 1941 fiscal year when 6,795 new groups were established (table 59, Appendix). New activity then fell off rapidly, probably because of some opposition to the agency's cooperatives. By June 30, 1944 the number put into operation totaled 27,490. 6/

All regions and States had some of these simple forms of community and cooperative activity. However, Regions III and IV were most active in developing this rehabilitation tool, together having about one-half the total number established. Missouri alone had 3,000; Kentucky had more than 2,500 started by June 1944. Utah led among the Western States. This dispersion throughout all parts of the Nation, but also a concentration within certain regions, States, and even counties, is brought out by figure 9. (This figure, however, is based upon active groups only and represents the situation as of June 30, 1942, a year after the peak in number of active groups.)

Six out of every seven, 86 percent of the total number were established with loan funds; 14 percent without. 7/ The majority of those without loans were in Region III where one-third were established without financial aid from the agency.

4/ FSA Instruction 831.1, July 10, 1941; Farm Security Administration Cooperative Program, pp. 16-17.
5/ Co-ops for the Small Farmer, Farm Sec. Admin. p. 4.
6/ Based upon FSA Report No. 1, Part IV, Table 4A as of June 30, 1944. Data in this table for individual regions and States do not agree exactly with that provided by FSA through a special report from regional offices for the period ending December 31, 1943.
7/ Ibid.

Although policy at one time pushed joint loans especially around 1941, three-fifths were of the master owner type. 8/ However, in Western Regions IX, X, and XI the joint owner greatly outnumbered the master owner services, in XII nearly two-thirds were joint and in one Southern Region, V, the two types were equal in number.

Type of services.- About two-thirds of the groups involved farm machinery of some kind such as tractor, combine, feed grinder, or spraying equipment. 9/ Less than one-third involved sires, chiefly bulls, stallions, and jacks. Some services involved both machinery and sires, a few involved neither. Only in Regions II and III did the sire services come close to being as numerous as those for machinery. The master owner set-up was used more frequently for sires than for machinery. There was little difference between sire and machinery services as to whether the group was established with or without a loan.

Amount loaned.- Information is not available as to the total amount loaned for participation in group services. As of June 30, 1942, however, $8,057,000 had been loaned to groups then active, of which at least 75 percent was for machinery services. 10/ Most of the balance was for sire services. The average amount loaned for machinery services was much larger than for sires, reflecting the purchase of large equipment for group use. For example, machinery services established with a loan during the 1944 fiscal year received an average of $904 compared with $172 for sire services. 11/ The average for all other groups was $421. These averages were lower for the sire services and higher for the machinery services than reported for groups active at the end of June 1942.

Number and type of participants.- The number of farmers participating in a service varied from two up, but the number was usually small since these groups were rather informal arrangements of neighboring families. For example, a certain service for group ownership of a bull in Wisconsin had 7 participants, for a stallion, 23. 12/ A service in Michigan for a tractor had 5 participants, and for a combine, 9.

Sire services had more participants than those for machinery, as a rule. The average sire service active at the end of June 1942 had 17 members, compared with between 8 and 9 for the average machinery service. Possibly the trend has been toward smaller groups. At least, all services active in June 1942, averaged 11 participants compared with 6 for the groups established during the 1944 fiscal year. 13/

8/ Ibid.
9/ Based upon Special Report on Cooperatives as of June 30, 1942, Farm Sec. Admin., Sept. 22, 1942, Table 1.
10/ Ibid.
11/ Based upon FSA Rept. No. 1, Part IV, Table 4-B as of June 30, 1944.
12/ The Work of the Farm Security Administration in Region 2, Farm Sec. Admin., Milwaukee, Mar. 1, 1940, pp. 5-10.
13/ Based upon FSA Rept. No. 1, Part IV, Table 4-B as of June 30, 1944.

A cumulative enumeration of the number of participants in group services is not available but the number may be estimated as in the neighborhood of 225,000 to 300,000. There was 193,000 participants in the groups active as of June 1942. Not all of the participants were borrowers or even low-income farmers. Of the June 1942 participants, for example, a little over one-third, 37 percent, were agency borrowers of some type, 49 percent were "other low-income" farmers and 14 percent were other farmers. It is not known how representative this distribution is of the total participation of all groups established but it does include the members of about 17,000 out of the 27,490 started. This information indicates (1) that perhaps only one-sixth or one-seventh of the standard borrowers participated in group services, and (2) those borrowers participating were doing so in cooperation with their neighbors who were not borrowers and some of whom were in a higher economic status.

Results.- Three-fifths of all the groups established were still active as of June 30, 1944. 14/ More of those established with loan funds were active than of those without, 61 as compared with 56 percent. Nearly half, 48 percent, of the group which had completely paid off their loans were still active. Data do not permit comparing the joint and master owner types as to the percentage established which were still active.

Of the groups started with loan funds, 43 percent had repaid their loans, 7 percent had been liquidated, 9 percent were inoperative, and 41 percent had not fully repaid their loans but were functioning.

The number of active groups reached a peak in 1941 and then slowly declined. Only two Regions, II and III, followed the national trend in this respect, however, since I, VIII and IX reached their peak in 1942 and the other regions in 1943 (Table 60, Appendix).

Apparently many of the groups that were started during the 1941 fiscal year suffered a quick death, for the following year marked the peak of fatalities. During the 1942 fiscal year, and again during the first half of the 1944 fiscal year, more groups ceased activity than were established. The proportion of the groups that were started which remained active declined each year as the following summary shows.

Established		Total active end of period		Total number becoming inactive during period
Period	Number	Number	Percent of cumulative number established	
July 1, 1935-June 30, 1938	5,079	4,809	94.7	270
July 1, 1938-June 30, 1939	4,859	9,310	93.7	358
July 1, 1939-June 30, 1940	4,835	13,134	88.9	1,011
July 1, 1940-June 30, 1941	6,795	17,335	80.4	2,594
July 1, 1941-June 30, 1942	3,345	16,543	66.4	4,137
July 1, 1942-June 30, 1943	1,629	16,997	64.0	1,175
July 1, 1943-Dec. 31, 1943	471	16,028	59.3	1,440

14/ Based upon FSA Rept. No. 1, Part IV, Table 4-A as of June 30, 1944.

There were an average of three active groups for each field supervisor during the last half of both 1942 and 1943. Although FSA records indicate supervisors attended about three-fourths of the group and association meetings during the last half of 1943, they reported attending an average of less than 1 such meeting per supervisor during the 6-month period. During the last half of 1942 there was only 1 such meeting for each 5 supervisors. Not much more than 1 out of 5 of the services active during the last half of 1943 were reported as having any meetings. 15/ Apparently, after groups were started there were relatively few discussions among the participants which could be dignified by being called a "meeting." This suggests the probability that group services have not been a channel generally used by supervisors for carrying on educational work.

The group services simply represent some formalization of a practice rather common among farmers in many parts of the country, particularly for larger equipment such as threshers, ensilage cutters, corn shredders, etc. The war period, with its restricted farm equipment output and a rationing system which forced maximum use of equipment, would be expected to favor the growth of group services. Their decline in rate of establishment, in the face of this situation, must be explained largely in terms of administrative policy and in competitive demands upon the time of supervisory personnel.

The success of individual groups is measured to some extent by the proportion repaying their loans and by those remaining active, including those remaining active even if paid up. There has not been, however, any representative study of group services as a whole to show their effect upon the rehabilitation of individual participants, economically or socially. There have been some descriptions of selected groups 16/ and there have been studies of the services within half a dozen counties in three regions. 17/

15/ Based upon FSA Rept. No. 1, Part VII, Table 7-I as of Dec. 31, 1943.

16/ See, for example, J. Roy Allgyer, "Group Action and Progress," Land Policy Review, vol. III, no. 1, Jan.-Feb. 1940, pp. 45-48; Raub Snyder, "Small Farmers Discover Rural Cooperation," Land Policy Review, vol. VI, no. 3, Fall 1943, pp. 22-26; Joe J. King, "Cooperative Development Among Low-Income Rural Families in the Pacific Northwest," Social Forces, vol. 21, Dec. 1942, pp. 194-198; Joe J. King, "Rural Cooperative Self-help Activities in the Pacific Northwest," American Sociological Review, vol. 8, no. 6, Dec. 1943, pp. 706-710.

17/ Wynn, op.cit., also his Report on Field Study of Community and Cooperative Services of Farm Security Administration, Taylor County, Kentucky, Bur. of Agr. Econ., Jan. 1942; and Report on Field Study of Community and Cooperative Services in Malheur County, Oregon, Bur. of Agr. Econ., (1942?); Pryor, op.cit.; Herbert Pryor, Community and Cooperative Services, Desha County, Arkansas, Bur. of Agr. Econ., Little Rock, Dec. 1942; and Standing and Pryor, op.cit.; FSA has made 1 study of sire services, i.e., William W. Young, "FSA Cooperative Sire Services," Rural Rehabilitation Activities, Nov. 30, 1941, pp. 12-16. For the experience with group services in the 10-county noncommercial experiment see Rachel Rowe Swiger and Conrad Taeuber, Solving Problems Through Cooperation, Bur. of Agr. Econ. and Farm Sec. Admin. cooperating, Mar. 1942, pp. 7-8.

An evaluation of these groups might apply the following criteria: Have the facilities (1) been used at reasonable capacity, (2) served a reasonable number of low-income farmers, (3) earned sufficient income to meet loan repayments, (4) enabled the participants to increase their income, (5) enabled the participants to improve their farm practices, and (6) educated the participants in an understanding of the possibilities of self-help through cooperative thought and action? 18/

From the few studies made, generalizations are not warranted as to the success or failure of the group services throughout the country. These studies do suggest that economic benefits have accrued to participants since better sires help up-breed livestock and work animals; that making machinery available permits handling increased acreages, more timely operations, and better practices, and saves labor; and diversification of farm enterprises is encouraged through providing facilities, especially for planting and harvesting. There is little evidence that group services have increased the social participation of families in their neighborhoods or communities. Generally, the groups have not been a channel for a somewhat formal educational program nor have they been a means to increase belief in cooperative activity. Given a preference, many farmers choose individual ownership, or at least the master-owner type of service. Given the alternative of no service or joint ownership, they accept the latter. When experience proves joint ownership to be economically sound for their scale of operations, a farmer may still retain the ideal of individual ownership.

These limited studies give no conclusive evidence as to whether the joint or master-owner service is more successful, as to whether an individual or a group approach in initial organization brings more successes, or whether some types of facilities are better adapted to being handled through group services than are others.

Problems encountered.- Observation in the half-dozen counties suggests that one of the weaknesses of the group services has been the practice of organizing them without regard to the felt need of the participants arrived at through free and thorough discussion. Administrative pressure to go out and organize group services, setting "quotas" for county supervisors, results in super-imposed groups. This super-imposition and the disregarding of the basic principles of procedure outlined, may account for many of the failures.

Rather frequently there was resistance to the joint-owner arrangement and preference for the master owner. Other problems that were faced by some of the groups include the following.

1. Lack of adequate understanding among participants at the time of starting, which led to later misunderstanding.

2. Uneconomic facility because not used to the extent planned: (a) All who signed up didn't use it, (b) drought, etc.

18/ Standing and Pryor, op.cit., p. 10.

reduced current need, (c) not adapted to participants' needs — for example, a thresher was obtained which had too little capacity; a mower was bought because hay was to be grown but the land was found to be too stony for the hay to be cut with a mower.

3. Master borrower didn't serve all promised because (a) didn't have time or (b) more profitable to do custom work for larger operators.

4. Failure to adhere to written agreements: some farmers signed up to use the facility only to help their neighbor obtain it; written agreements not customary among neighbors for such activity.

5. Managerial problems such as incompetence, illness, moving away.

6. Mobility of members; participants moving away results in turn-over and loss of users.

7. Lack of previous experience in cooperative activity or in working together, led to disagreements.

8. Participants at a distance from each other made it difficult to work together and use the facility.

9. To include in the same group families not in the same neighborhood and not accustomed to exchange of work or visiting with each other, led to dissatisfaction.

Among the factors that contributed to making services function successfully were (1) a sound economic justification — that is, there was a real need for the service, (2) following the concept of the natural social grouping as a basis of organization, (3) competent management, (4) previous experience in cooperative activity, (5) the support of nonborrower families, and (6) the support of farm organization and religious groups through educational and promotional programs.

CHAPTER 12

COOPERATIVE ASSOCIATIONS *

Beginning under FERA, cooperative associations were consistently supported and encouraged as a direct tool of rehabilitation until 1943. Cooperative marketing and purchasing by farmers in the United States has developed over a half-centory or more. 1/ Federal support of cooperatives for farmers has been an established policy since passage of the Clayton Anti-trust Act in 1914 and has taken the form of favorable legislation, credit, and financing of educational work.

But the organization of new associations and extension of credit and guidance to existing associations on the part of FSA and its predecessors drew opposition. In fact almost all activity by the agency in this field was prohibited after June 30, 1943, except for the medical, dental, and hospital care groups.

General Development, Policies, and Results

Development.- Support of cooperatives took the form of direct loans, grants, or supervision for existing associations of which borrowers were members; loans, grants, or supervision for new associations organized primarily for the benefit of borrowers of the agency and assistance in their establishment; and loans or grants to borrowers to participate in or use an established or a new association. Encouragement of borrowers to participate in some form of cooperative activity was a general policy of both RA and FSA until stopped by Congress.

Under FERA, rural-industrial communities with cooperative industries were started for stranded populations and community work centers for canning, etc., were begun. 2/ The Resettlement Administration inherited resettlement-type projects of which industrial, processing and other cooperatives were a part and started others. Aid was also given existing associations and new groups started. Under FSA, land-leasing associations were initiated, small-scale purchasing and marketing cooperatives were promoted and increased emphasis given to assisting cooperatives for standard loan borrowers and low-income farmers in general.

A characteristic of many of the associations newly formed, especially in the earlier years, was their speedy establishment without an underwriting of educational development before starting. Rather, the tendency was for administrative superimposition.

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* Sections on "Livestock Insurance" and "Life Insurance for Borrowers" prepared by Ralph R. Botts, Bur. of Agr. Econ.; remainder of chapter prepared by Olaf F. Larson and Paul J. Jehlik of that Bureau.

1/ E. A. Stokdyk, "Cooperative Marketing by Farmers," pp. 684-705 and Sidney N. Gubin, "The Growth of Farm-City Cooperative Associations," pp. 706-719 in Farmers in a Changing World.

2/ Rural Rehabilitation, vol. 1, no. 1, Nov. 15, 1934.

The appropriation act effective July 1, 1940 prohibited loans to individuals to participate in any new cooperative association. Administrative emphasis was placed upon the part of cooperative organizations in the production, processing and distribution of "Food for Freedom," for a time. However, after July 30, 1943, because of the additional prohibition against loans to any cooperative association, direct use of this tool was virtually terminated.

Definition.- The cooperative associations encouraged as an aid to rural rehabilitation met the usual definition, that is, a nonprofit organization, either incorporated or unincorporated, owned and controlled by its members, formed for the purpose of furnishing goods or services to its members.

Associations receiving a direct loan or the majority of whose members received a direct loan to participate were required, according to procedures issued by FSA, to be organized and to operate in accordance with the following cooperative principles:

1. Control rested in the membership on the basis of only one vote for each member and proxy voting prohibited unless such prohibition not permitted by law.

2. All members permitted to participate equitably in the services rendered by the association.

3. Net income above the amounts required for operating expenses, payments on indebtedness, necessary reserves and payment of limited interest on capital to be distributed to member and nonmember patrons in proportion to their contributions to such earnings. Patronage dividends to nonmembers to be first credited to purchase membership.

4. No inequitable restrictions upon admission to membership.

5. Local associations should sell goods and services only for cash. 3/

Two other requirements were (1) the groups should provide services or commodities needed by borrowers at a cost commensurate with the benefits, and (2) the group should be assured of adequate capital, competent management and an operating program conforming to sound business practices. Associations in which borrowers participated, but were a minority, were to be encouraged to comply with these requirements.

Classification by activity.- In addition to the medical, dental and hospital care and environmental sanitation groups, which are considered in another chapter, standard loan borrowers were affected primarily by the following types of associations: 4/

3/ FSA Instruction 831.1, July 10, 1941.
4/ Based upon FSA Instruction 803.1, July 24, 1942 and FSA Instruction 859.1, October 12, 1942.

1. Land leasing; the major activity was leasing land not owned by the government and sub-leasing parcels to its members.

2. Veterinary; provided veterinarian services for members.

3. Local purchasing and marketing; provided for general purchasing and marketing needs of low-income families within a county or limited area.

4. State purchasing and marketing; cooperatives whose members were other cooperatives.

5. Insurance; engaged in furnishing life, burial, or livestock insurance.

6. Agricultural processing and facilities (nonproject); included creameries, dairies, cheese factories, canneries, cotton gins, powdered milk factories, wood products, gas and oil, stoves, machinery rental, dry storage and warehousing, cold storage and locker service, telephone, sire service, livestock improvement, terracing and soil conservation, etc.

7. Water facilities; irrigation, etc.

Some associations engaged in more than one activity. In addition to the types mentioned, others were established directly as a part of projects to serve project families.

<u>Classification by method of financing</u>.- Associations that were assisted fell into six categories according to the methods of financing, as follows: 5/

1. Direct loan; made to the association by the agency.

2. Membership or "participation" loans; made to individual borrowers to acquire membership rights in the form of capital stock, membership certificates, etc.

3. Combination of (1) and (2).

4. Grant; made directly to an association but rarely not in combination with one of above types.

5. Service loans; borrowers use parts of individual loan or grant funds directly to pay for goods or services, excluding membership, furnished through an association not classified (1) through (4).

6. No funds; financed entirely without specified use of agency loan or grant funds to individuals or the association.

5/ FSA Instruction 803.1, July 7, 1942.

Policy.- The policy of FSA was to encourage all borrowers to participate in some form of cooperative activity, although this need not necessarily mean taking part in a cooperative association. The agency stated it was "not trying to build and control a co-op system," but in trying to meet certain needs of family farm operators, the cooperative method was the only way. The ultimate objective was felt to be to lessen, rather than to increase, the need for Government assistance. It was asserted the financing and supervision of co-ops was definitely pointed toward helping members own, operate, and control their organizations without Government assistance. 6/ The purpose of the supervision was to protect the Government's financial interest and train the membership to gain full possession of their organization. 7/

Policy emphasized that "duplication of available existing cooperative facilities shall be avoided," 8/ and that borrowers should be encouraged to participate in existing organizations where they met the families' needs and satisfied the general requirements as to cooperative principles. 9/.

For an association to obtain a direct loan (1) it was to be unable to obtain adequate financing from the Farm Credit Administration or other public or private credit sources; (2) the majority of the membership had to be borrowers or persons eligible to be borrowers, or the major portion of the services rendered had to accrue directly to the eligible members; and (3) the association was rendering or would render services substantially contributing to the rehabilitation of borrowers. 10/ Other qualifications included evidence of economic soundness, competent management, etc.

Loans to associations were made to finance the acquisition of land, buildings, and equipment, and for operating capital under the terms outlined in Chapter 8.

Loans to individuals for participation in an association already organized or to be established required a supporting farm and home plan under the same circumstances as a loan for group services. The same requirement that a loan of less than $20 could be made only to an active standard borrower also applied. Participation loans in excess of $100 required a statement of justification in addition to the farm and home plan. Like loans to associations, participation loans carried 3 percent interest but service loans drew 5 percent. Loans for participating in an existing cooperative were barred if the purpose was to bail out a creditor or to refinance an association by the "backdoor method." By 1941, the requirement for some contribution out of the borrower's own resources, mentioned in connection with group services, applied especially to associations.

Support was to be given only the associations operating upon truly cooperative principles, as previously outlined. By 1941, organization

6/ Farm Security Administration Cooperative Program, pp. 2-3.
7/ Supervisors' Guide for Community and Cooperative Services, pp. 57-62.
8/ FSA Instruction 734.1, October 25, 1938.
9/ FSA Instruction 831.1, July 10, 1942.
10/ Ibid.

procedure called for building from the "grassroots" up, rather than by superimposition and for stressing continuous education of members after organization. 11/

A combination of direct loan to the association and of individual capital contributions, the latter financed by the agency if necessary, came to be the general policy of FSA. County and district supervisors had direct responsibility for carrying on whatever supervision of the associations was deemed necessary in the case of those financed in whole or in part. In general, this was to be supervisory assistance rather than control over management and operating policies.

Number and distribution of associations.- The number of all types of associations, including environmental sanitation, medical, etc., which were considered as "established" at the end of 1945 totaled 4,498 (table 61, Appendix). This includes those on and off projects, those established before aided by the rehabilitation agency through direct financing or through financing the participation of individuals, those newly established as a direct result of agency financing in some form, and those receiving no funds but receiving supervisory assistance.

The number newly "established" grew progressively each year through the 1942 fiscal period; then came an abrupt dropping off of new activity. A large increase between 1941 and 1942 reflected the efforts to start local purchasing and marketing co-ops. Region V had nearly one-fifth of the total number. However, regional variations in the number alone have but limited significance without reference to the type of activity.

These associations were financed as follows:

	Percent
Direct loans	11.1
Membership loans	10.9
Combination (direct and membership loans)	3.6
Service loans	35.9
Grants only	10.7
No funds	27.8
Total	100.0

Only 1 association out of 54 of those financed with loans, directly or indirectly, also received one or more direct grants. 12/ Nearly three-fifths of the associations were unincorporated. 13/

Operating status of associations.- Again considering all types of associations, the number of actives grew each year to reach a peak of more than 4,000 at the end of June 1943; after that a downward trend brought the number to 1,616 at the close of 1945.

11/ FSA Instruction 831.1, July 10, 1941; Supervisors' Guide for Community and Cooperative Services, pp. 47-56.
12/ FSA Report No. 1, Part IV, Table 4-C as of December 31, 1945.
13/ Ibid.

At the end of 1945, 36 percent were still active, 45 percent were inactive, more than 5 percent were paid up without liquidation, and over 14 percent were liquidated. 14/ About four-fifths of those whose liquidation was completed had paid back their loans in full.

Families participating.- A total of 493,079 families were reported as participating in associations of all types active at the end of December 1943. 15/ This was a duplicated count, however, that is, a family taking part in more than one activity was counted for each participation. Furthermore, the data did not separate standard loan from other borrowers or from nonborrowers. There was no information on cumulative membership of all associations "established." It is therefore difficult to appraise the effectiveness of the support given cooperative associations by even such a measure as the percentage of standard loan families who have been participants. The FSA report for borrowers active in 1938 does show that 26 percent were participating in one or more group services or cooperative associations other than medical, but not necessarily restricted to those aided by the agency. A comparable report for 1939 active borrowers shows 14 percent participating in agency-aided group services and cooperative associations, other than medical.

The number of families, standard borrower and others, participating in major types of associations other than projects only, active at the end of December 1943 was as follows: 16/

Land lease	1,250
Medical and dental	107,755
Migratory camp health association	28,993
Environmental sanitation	5,732
Veterinary	27,032
Local and state purchasing and marketing	148,209
Insurance	58,127
Processing and facilities	103,191
Water facilities	4,079

Again it should be emphasized that the number participating in active associations does not offer a fair measure of the total participation in the various fields of cooperative activity, for standard borrowers alone or in the aggregate.

Loans and repayments.- Of the $808,000 in direct loans from corporation funds, 33 percent of the principal had matured by June 1944 and only 69 percent of the maturities had been met. 17/ Of the $21,474,000 principal on loans from other funds, 22 percent had matured and 97 percent of the maturities had been met. 18/ Maturities take account of any renewals that may have been made. Four percent of the total amount

14/ Ibid., table 4-D.
15/ Ibid., table 4-F, as of December 31, 1943.
16/ Ibid.
17/ Ibid., table 4-J as of June 30, 1944.
18/ Ibid., table 4-I.

of direct loans to associations came from corporation trust funds, the remainder from other appropriated and borrowed funds.

No estimate is attempted as to the amount of participation and service loans or the amount of direct and indirect grants.

The following sections discuss the major activities of associations in more detail. 19/

Local Purchasing and Marketing Associations

A purchasing and marketing association, incorporated or unincorporated, was described as composed of farmers who acted as a group in buying their farm requirements (feed, seed, fertilizer, chicks, farm equipment and tools, pressure cookers, jars, etc.) or in marketing their surplus of farm produce (potatoes, tomatoes, grain, cotton, dairy products, etc.). The borrowers also worked through these associations to organize distribution facilities — truck routes, egg centers, milk routes, storage space, and other facilities — and to negotiate for orders that would take their entire output for the market. Membership fees were usually small (50¢ or $1). Purchases through the associations were made for members on a "cash-with-order" basis. At the end of each fiscal year the savings were distributed to patrons through patronage refunds. The marketing phases were usually handled on a commission basis and a rate was charged sufficient to cover overhead costs.

Through its experience with local purchasing and marketing associations, FSA reported it found that the operations often could be carried out best either (1) by obtaining the services of some cooperative association which could fill the pooled orders or market the pooled produce of the members or (2) by the organization by several locals into a central purchasing and marketing association to perform the purchasing and marketing functions for the member locals. 20/ This was known as federating of cooperative associations.

Number and membership.- Perhaps 1,300 local purchasing and marketing associations were established. A drive was put on in 1941 to get such groups organized in as many counties as possible where they were needed. About 1,250 local groups and 5 federated associations were reported as active at the end of December, 1943. 21/ Membership of the active associations was roughly 150,000. Almost one-third of the membership was in Region III and most of the others in the 4 Southern regions. Seven out of 10 of the active groups were in the Southern regions.

Loans and repayments.- The great majority of purchasing and marketing groups were financed through participation and service loans to members. As of September 30, 1934, only 69 associations, including 5 federated groups, were reported as having direct loans. Region V had 42 of these direct loan groups; Region I had 15; and the remaining 12 were distributed among 4 other regions.

19/ The health associations, water facilities and environmental sanitation work are discussed separately.

20/ Farm Security Administration Cooperative Program, p. 6.

21/ FSA Report No. 1, Part IV, table 4-E as of December 31, 1943.

The local groups had borrowed $398,000 of which $201,000 was mature; repayments were ahead of schedule, totaling $220,000. The State groups did not do so well. They had borrowed $146,000 of which $101,000 was due and $26,000 had been repaid. Local groups had met 88 percent of the $9,000 due in interest. The State groups had met 85 percent of their interest charges of $9,700. The repayment record of local associations was good, 45 being on schedule, 13 ahead, and only 6 behind. The average local association had borrowed $6,200.

None of the loan funds for these associations came from corporation trust funds. There were few, if any, grants directly to purchasing and marketing groups.

Results.- As with most other forms of cooperative activity associated with the rehabilitation program, there is not now any basis for a general evaluation of purchasing and marketing groups. A few have been observed at one stage or another of their development, incidental to studies of neighborhood action groups and group services. In these few instances, some groups were found to provide a method of marketing cotton more profitably than through local channels, 22/ and to save members money on purchases. 23/ Some just managed to survive with only mediocre results, but had prospects for growth. 24/ Some of the groups had grown up out of the neighborhood action group process. Moves to bring in nonborrowers seemed to stimulate interest. In some instances, failure of members to realize fully that they were participating in a cooperative activity and continuance of management by the supervisor and only nominal control by the members and association officers indicated a need for a basic educational program about cooperative principles.

Agricultural Processing and Facilities Associations

Some 530 agricultural processing and facilities associations with 103,000 participating families were reported active at the end of 1943. This category includes several activities such as creameries, canneries, gins, stores, grain elevators, etc., which in the aggregate, were exceeded in number only by the local purchasing and marketing, the health, and possibly the environmental sanitation groups. A majority received direct loans.

Grain elevators.- The cooperative grain elevator was usually incorporated as a stock cooperative. 25/ It owned and operated a grain warehouse and elevator facilities which were licensed by the Federal or State Government as a public warehouse. Generally the local elevator association was a member of some terminal elevator association such as the Farmers Union Grain Terminal Association of St. Paul,

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22/ Standing and Pryor, op.cit., p. 9; Pryor, Community and Cooperative Services and Discussion Groups, Acadia Parish, Louisiana, p. 8; Pryor, Community and Cooperative Services, Desha County, Arkansas, p. 9.
23/ Wynn, Report on Field Study of the Neighborhood Action Group Program in A County in Southern Illinois, p. 10.
24/ Wynn, Report on Field Study of FSA Community and Cooperative Service Program, Bradley County, Arkansas, Aug. 1942, p. 9
25/ This description is based upon Farm Security Administration Cooperative Program, pp. 9-10.

Minn. or the West-Central Cooperative Grain Company of Omaha, Nebr. through which the local elevator marketed the grain of its members. Terminal associations also furnished local associations with financial aid and bookkeeping, accounting, and auditing services. Where farmers placed their grain under the Commodity Credit Corporation loan program, the local associations handled the transaction through the terminal association with which they were affiliated. In addition to functioning as public warehouses and storing grain for farmers, local associations made an advance payment to their members for grain upon delivery, based on grade, final settlement being made when the grain was sold by the local. As carload lots were accumulated they were usually shipped to the terminal markets for sale or storage. Many elevators conducted sideline operations such as the sale of oil, gas, farm supplies and equipment, and grind and mix feeds.

Direct loans were received by 51 grain elevator associations. All but 1 of these were in Regions II, VII and X. The total borrowed was $535,000 of which $166,000 was due by September 1944 and 96 percent had been repaid. Of the $30,700 due in interest, 83 percent had been paid. The associations were almost equally divided among those ahead, behind, and on schedule, for meeting repayments.

Powdered milk processing.- Loans totaling $260,000 were made to 3 powdered-milk processing associations, all in Region II. Only $19,500 was due at the end of September 1944, but $44,800 had been repaid. Two were ahead of schedule and one was behind on repayments. Interest charges of $6,800 had been more than met.

Cotton gins.- Fourteen cotton gins, including those on projects, received direct loans totaling $187,000 of which $89,000 was due and 74 percent had been repaid. Most of the delinquency was accounted for by 1 association although 6 were behind schedule; only 1 was ahead on repayments. Interest of $17,000 had been met to the extent of 92 percent.

These gins were in Regions V, VI, VIII and XII.

Gins and stores.- There were 9 gins and stores combined which received direct loans of $434,000. Of this, $208,000 was due and even more, $211,000 had been repaid. All interest charges, amounting to $64,000, had been paid.

One of these associations was in Region III. The others were in V and VI. Only 1 group was appreciably behind on repayments.

Canneries.- Cannery associations, 27 in number, and located in every region but I and VIII, had received loans of $593,000. Repayments due totaled $415,000 and only 43 percent of this amount had been repaid. Only 56 percent of the $81,000 due in interest had been paid. Canneries appear to have been among the least successful types of activity, as judged by their repayments. Only 1 was ahead of schedule and 22 of the 27 were behind on repayments.

Creameries and cheese factories.- Direct loans were made to 33 cooperative creameries and cheese factories located mostly in the Great Lakes, Great Plains, Mountain, and Pacific Coast States. Loans totaled

$428,000 of which $107,000 was due and 73 percent had been repaid by September 1944. Of the $19,200 due in interest, 87 percent had been repaid. Only 5 were ahead, 17 were behind, and 11 were on schedule in meeting repayments.

Land Leasing Associations

When land is owned and operated in fairly large tracts landowners are often unwilling to break up their holdings into small pieces and make individual units available to several small farmers. One way of enabling small farmers in need of rehabilitation to get access to land under secure tenure was through the device of land leasing associations. This tool was used primarily in the cotton plantation South but to some extent in the Western grazing areas.

Apparently this type of program was first formulated in the recommendations of the President's Committee on Farm Tenancy in 1937 which said that the proposed Farm Security Corporation should, on an experimental basis, "enter into long leases with landowners who are willing to agree to reasonable terms of rental and to compensate the Corporation at the termination of the lease for improvements made on the property. Such leases should be made for periods of 20 years or longer with a view to subleasing the property to farmers for corresponding periods." 26/ The Committee pointed out some of the disadvantages of leasing as compared with outright purchase of land by the Government. It was also recommended that on an experimental scale "cooperative groups may well be aided to acquire land by purchase or long lease for subleasing to group members. The cooperative organization would serve the function of a nonprofit-seeking landlord working in the interests of its membership. Such an arrangement would relieve Federal agencies of much responsibility for management." 27/

The ideas put forth by the President's Committee became a definite part of the Farm Security Administration's tenure improvement program early in 1939 when 17 land leasing associations were started in 3 Southern States.

Land leasing associations were cooperatives whose major activity was leasing land not owned by the Government and subleasing parcels to its members. 28/ Ordinarily they were under the general jurisdiction of the county RR supervisor. These associations were closely related to similar groups organized primarily for the purpose of leasing and developing land obtained either from the Government or from private individuals. It is the so-called project lease and development associations, largely operative on resettlement projects, which entered into the 99-year leases which were later vigorously objected to by others.

The specific aids which could be used as a part of the land leasing association program to aid tenants were as follows: 29/

26/ Farm Tenancy Report of the President's Committee, p. 13.
27/ Ibid.
28/ FSA Instruction 803.1, July 24, 1942.
29/ The FSA Tenure Program, Program Analysis Report No. 23, Farm Security Administration, Sept. 16, 1942, pp.9-10. See also FSA Instruction 800.5.

1. Leasing of one or more tracts of land to be divided among a small group of tenants or owner operators whose present units did not afford an adequate base for sound operation.

2. Providing bargaining power for the leasing of family-size units.

3. Leasing of tracts of land for subdivision or assembly into family-size units.

4. Leasing of land for grazing or other group use.

How land leasing associations operated.- 30/ The members of land leasing associations had a dual role. As operators they formed cooperative associations and leased the land, usually a plantation, from owners; then as tenants they subleased individual tracts from the cooperative.

To form an association the tenant farmers, with the aid of FSA personnel would draw up a charter and by-laws, subscribe $1 each for a share of nonpar stock, elect a board of directors, and organize or incorporate under the laws of the State. In the name of the association they leased a plantation from its owner, usually for 5 to 10 years and agreed to pay a yearly cash rental for the land and buildings. The rent was usually paid a year in advance. An option for eventual purchase was often included in the lease. Either the owner or the association agreed to place the existing buildings in adequate repair with the cash rent being adjusted to credit whoever did this work. The association agreed to operate the farm under sound soil-conserving practices.

The cooperative performed the functions of the plantation owner. It subleased individual tracts to each of its members on a cash or share basis. In the great majority of cases the tenants gave one-third of the cotton and one-fourth of the corn to the association and paid cash for the feed, and the garden and truck cropland. Some members, however, worked on a sharecropper basis, keeping half of all crops for their labor. The association operated the usual plantation enterprises such as commissaries, gins, tractors and other large-scale machinery. It might also operate the pasture and feed cropland. The management of the cooperative was in the hands of a trained farm manager appointed by the Board of Directors. He was responsible for such enterprises as the commissary and gin and had general supervision over the farm. In the larger associations the manager had an assistant and a bookkeeper and in nearly every instance a full-time home supervisor.

Operating capital needed by the association was obtained through FSA loans. Most of the funds were used for paying the first year's rent in advance and the remainder was used for operating the cooperative enterprises and to "furnish" the families working on a sharecropper basis. In addition to the loan to the association, usually each member family had a standard rehabilitation loan. As most of the families

30/ Based particularly upon R. W. Hudgens, "The Plantation South tries a New Way," Land Policy Review, vol. III, no. 7 (Nov. 1940) pp. 26-29.

had little when they became members of the association the loans during the first 2 years averaged about $600 and were used to buy work stock, milk cows, hogs, fertilizer, seed, and equipment. A farm and home plan was made for each family with emphasis placed on home production of the family's food supply and the development of two or more cash crops for market. The cotton acreage allotment was divided among the families on the basis of their size and each family received its share of the AAA payments. Each member received any profits accruing to the association through the operation of the various services, in addition to the income from his own piece of land.

A study of 42 of the associations active in 1943 showed an average membership of 41 compared with 49 about a year earlier. The number of members in associations ranged from 5 to 265 but all except 10 had less than 50 members.

Development of the program.- When the program started in the spring of 1939, 827 families joined together to lease 17 cotton plantations in Arkansas, Mississippi, and Louisiana. A year later 14 more associations were started, bringing the total membership up to 1,699 families of whom 949 were Negro and 750 white. The acreage under lease grew to 94,600 and Missouri and Alabama were added to the list of States with associations. By September 1, 1942 there were 39 land leasing associations with 1,903 members. The program had moved outside of the cotton South and had entered Indiana with 2 groups.

All together, during the time this program was authorized FSA aided in forming 52 associations with more than 2,000 members leasing 136,386 acres. 31/ Activity extended into Virginia, North Dakota, Utah, New Mexico, and Texas. However, Arkansas and Louisiana accounted for the majority of these groups.

Procedural instructions issued in 1941 stated the land leasing associations were "not to replace the practice of aiding individual clients to enter into leasing arrangements with landowners where suitable family-size units can be leased by the individual on satisfactory terms, but should supplement it where the facilities of a well managed and adequately financed organization will permit negotiations and operations which could not be arranged on an individual basis." 32/

Generally associations were to have not less than 10 members. The recommended desirable minimum length of lease was 5 years. Lease terms were preferably to be on a share-crop basis. The period of the loan to the association was not to exceed the length of lease. Regional directors could approve loans not in excess of $25,000 to an association, provided not more than $15,000, or an average of $300 per family, was expended for repairs, land development, and construction work needed for efficient operations and to meet minimum standards of housing and sanitation.

Beginning in July 1943 with Congressional disapproval of this activity the number of associations began to decline and liquidation proceeded as quickly as tenure contracts could be cancelled.

31/ Three of the associations operated grazing enterprises and were operated without direct financial assistance from FSA.
32/ FSA Instruction 800.5, October 22, 1941.

Results of land leasing associations.- During the first year of operation 10 of the 17 associations ended the season with an average profit of $3,000 each while the other 7, suffering adverse crop conditions, had an average deficit of a little more than $5,000 each. 33/ During 1941, 24 of the 39 associations then organized showed a net profit; 11 made a net profit of over $100 per member. Ten of the 15 groups losing money in 1941 were located in Louisiana. 34/

A financial summary of the FSA loans to leasing associations through December 31, 1942 showed loans amounting to $1,364,402 of which $272,796 had been repaid in principal. 35/ Interest payments totaled $47,361. During 1942 the associations had a net income of $267,707 while their cumulative net income for all years was $586,618. Only the Louisiana associations, as a group, had a cumulative net loss.

At the close of 1943 the most complete information available on the members of the land leasing associations was obtained for 42 of the groups, all located in Regions V and VI. 36/ These 42 included a few groups located on projects and organized to develop as well as lease land.

This 1943 study showed that members of the associations were primarily operating cotton farms. Out of the $914 cash income from the sale of farm products during the year, crop sales accounted for $853 -- mostly from the 8 bales of cotton. The live-at-home program had developed to the point where home furnished food and fuel was valued at $301. Most of the pork, milk, chickens, and eggs and some of the veal produced was used at home. This home production provided more than 1 egg and a quart of milk per day per family member — well in line with recommended nutritional practices. Off-farm work, an average of 2 months per family, helped to bring the gross cash family income up to $1,037, of which $640 was used for rent and other farm-operating expenses. Nine out of 10 leased their land on a share basis. Individual units averaged 49 acres of which 30 were in crops. The families, averaging 4.8 persons, had 20 man months of labor available. Just half of the families had members working off the farm in 1943. The value of working capital was $829 while the total assets were valued at $1,078 and the net worth averaged $599. Two out of every three had received a rehabilitation loan during the year; 72 percent had made repayments during the year and 28 percent of the members were completely paid up on their loans. There were, of course, wide variations from one association to another in all these characteristics.

As compared with the average active standard borrower family in Region VI — in which the majority of the associations were located — the association members had a larger total farm cash income but they had less left when rent and other farm expenses were deducted. The net cash income for the family likewise was less for association

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33/ Hudgens, op.cit.
34/ The FSA Tenure Program, p. 10.
35/ Hearings Before the Select Committee, part 3, p. 1,001-1,002.
36/ Financial Status and Production of Project and Land Leasing Association Families in 1943, Release No. 7, 1943 Family Progress Report, FSA, August 31, 1944.

members, particularly because they had much less income from off-farm work. Both groups spent about the same for family living but the association families bought more farm and home capital goods. The results of these differences in income and expenses was that the association families had $9 left for debt payment and savings at the end of the year as compared with $182 for the rehabilitation family. It is true that the leasing associations credited the average member with $43 in savings but as this was not available to the family in 1943 it was not included as income. There was little difference in the value of food and fuel furnished by the farm. Both groups had about the same value of working capital and although the association members had borrowed more from FSA they owed less at the end of 1943. Both groups had the same acreage of cropland but the rehabilitation borrowers had more land devoted to noncrop uses.

The advantages to the tenant farmer claimed for the leasing associations are as follows: 37/

1. They give the tenant access to the land where it would otherwise be denied because of inability to pay cash rent in advance, and they help to cushion the shock of the displacement of farm tenants.

2. Members get training in sound farming practices through work with trained farm-management and home-management supervisors.

3. Members are likely to have better health because the home-produced food can give them a balanced diet and most of the associations provide facilities for adequate medical care at a price the families can afford to pay.

4. A large number of cooperative activities are available to the members which help cut expenses and do a better job of farming.

5. Minimum standards of housing are assured since the tight roofs and screened windows of the leased plantation houses represent a long step forward from customary shelter.

The advantages to the land owner are (1) assurance of an income that will enable him to meet fixed charges and give a good return on the investment and (2) the knowledge that the land is being worked under soil-conserving practices and that buildings are being maintained in good repair.

A Congressional Committee appointed to investigate FSA activities disapproved of the associations. They were classed with other substitutes for resettlement projects "created and financed in violation of law." 38/ In H. R. 4384, the bill first drawn up by the Cooley

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37/ Hudgens, op.cit.
38/ Report of the Select Committee, p. 11.

Committee to incorporate its recommendations for changes in rehabilitation activities, provision was made for expeditious liquidation of land leasing associations. The appropriation act for 1944 put an end to starting new land leasing associations and required discontinuation of those already established.

Livestock Insurance*

The need on the part of clients of the Farm Security Administration for some arrangement for replacing livestock, and particularly work stock, that dies or becomes disabled has been recognized from the beginning of the rehabilitation program. Whereas the loss of a work animal may not be serious for the large operator who owns a number of animals, a similar loss badly handicaps the small operator who has a relatively large proportion of his capital invested in one or two animals. For many an FSA client the loss of a work animal may not only reduce or wipe out his net worth but may completely disrupt his farming. A new loan to replace a lost animal, assuming that such a loan is obtainable, may increase the client's debt beyond his ability to repay.

Realizing a need for some systematic way of replacing lost animals, FSA borrowers in Arkansas, Louisiana, and Mississippi were encouraged and assisted by the Farm Security Administration in forming mutual benefit protective associations for the purpose of providing funds for the replacement of work stock, breeding sires, and brood mares. 39/ The associations were incorporated under appropriate laws of the several States as nonprofit organizations. Membership was at first limited to FSA clients, but the Louisiana and Mississippi associations later amended their by-laws so that farmers who were not indebted to FSA might obtain insurance from the associations. The Arkansas association may have taken similar action without it having come to our attention. The premium for the insurance sold to an FSA client is often included in the loan made by FSA. A somewhat similar association was organized in Utah to replace herd sires lost by members. 40/ Membership was not limited to FSA clients, though a majority of the so-called "bull blocs" — groups of farmers each of which jointly owned one or more bulls — were made up of members who were financed by FSA. Operating statistics for these four associations are given in table 12.

Organization.- The Mississippi and Louisiana associations began business in January 1939, and the Arkansas association in June 1939. The Utah association was organized in July 1941.

The insurance law under which the Mississippi association was incorporated requires that $2\frac{1}{2}$ percent of premium collections must be paid as a State tax. The other associations were incorporated under cooperative association acts and are not required to pay premium taxes.

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* Prepared by Ralph R. Botts, Bur. of Agr. Economics.

39/ Arkansas Livestock Replacement Association, Inc., $105\frac{1}{2}$ West 8th Street, Little Rock, Arkansas; Louisiana Livestock Replacement Association, Inc., P. O. Box 231, Pineville, Louisiana; and Farmers' Mutual Insurance Association, P. O. Box 808, Jackson, Mississippi.

40/ Utah Livestock Purchasing Association, Salt Lake City, Utah.

Table 12.- Operating data for livestock insurance associations in four States, as of December 31, 1943

Associations	Certificates in force	Animals insured	Premiums collected	Claims paid: Number	Claims paid: Amount	Insurance in force
	Number	Number	Dollars	Number	Dollars	Dollars
Arkansas	10,502	19,302	98,208 1/	783	74,755	1,540,525
Louisiana	9,331	13,659	75,044	842	76,196	1,415,944
Mississippi	20,412	29,489	165,679 2/	1,507	102,963	2,279,708
Utah 3/	138		1,035	9	765	4/

1/ Estimated.
2/ From Directory of Mutual Insurance Companies in the United States.
3/ Fiscal year ended August 31, 1943.
4/ No policies issued.

The Mississippi association took over the business of a livestock replacement fund that had been in existence for about 2 years. This replacement fund was not a formal, incorporated organization but merely a voluntary pooling arrangement whereby each client paid, or permitted FSA to deduct from his loan, a stipulated sum to be held in trust for the payment of losses. Under this arrangement, losses were to be paid as long as the common fund lasted and there was no provision for assessments in case the fund was depleted before all claims were paid. The experience with this replacement fund provided valuable experience as a background for the new insurance organization.

The associations are permitted by the various State laws under which they are organized to engage in many activities beyond the scope of their present operations. For example, the Louisiana association could engage in almost any activity in connection with the "production, marketing, and processing" of agricultural commodities, and could even provide medical services and benefits for its members. The Mississippi association, if it wished, could conduct a burial insurance business for its membership, and the Arkansas association considered the expansion of its program to include the insurance of cattle.

These organizations were owned and controlled by their members, and were given advisory and technical assistance without charge by the State and regional representatives of FSA. Grants were also made to all of the associations, except the one in Utah, by FSA to begin operations. These grants were to defray operating expenses for approximately a year. The donated capital was used principally to pay salaries of association employees. The associations were required by their grant agreements, among other things to adopt an approved system of accounts and to provide surety bonds for employees who handled funds.

Premiums or assessments were collected in advance and were intended to cover costs for a full year. Membership liability beyond the payment of premiums was limited by the three Southern associations to an additional annual premium on each policy. Members of the Utah association were liable for any additional assessments required to pay replacement costs and operating expenses. All of the associations

provided that any excess of income over losses and needed reserves might be distributed among members as patronage dividends.

The Arkansas and Louisiana associations charged a $1 membership fee, and the Utah association charged a $6 membership fee. These fees were nonrecurring.

Insurance contract.- The associations in Arkansas and Louisiana wrote insurance up to a maximum of 80 percent of the agreed or appraised value of the animal. The Mississippi association, after having accumulated about $140,000 surplus, raised its maximum coverage from 66-2/3 to 75 percent of appraised value. The Utah association did not issue a policy of insurance: Under its replacement program it was liable for a maximum of $150 per animal. Only 1 of the 9 claims paid by the Utah association during the fiscal year ended August 31, 1943 was for the maximum amount. The average claim paid was $85.

Appraisals were made by a committee of 3 in which the FSA county supervisor had an active part. A later development was the establishment by the Arkansas and Mississippi associations of maximum appraised values by ages and weight of animals and the refusal to insure animals worth less than $50. This procedure contributed toward the standardization of appraisals and probably helped to eliminate over-insurance. It was realized that the safeguard of limiting insurance to a percentage of appraised value might be nullified in practice if appraisals were too high.

The appraisal schedule of the Arkansas Association provided that horses and mares older than 10 years and mules over 12 years have a maximum value of $50. Animals over age 15 were not insurable as their maximum value was set at less than $50. No insurance was written on replacements or new purchases of animals over 10 years of age.

Under the schedule of the Mississippi association, animals over age 14 were not insurable; and animals over age 12 had the following maximum values: Horses and mares, $50; mules, $60.

In addition to their annual policies, the associations in Louisiana and Mississippi offered short-term policies which provided temporary insurance on work animals bought as replacements. Relatively heavy losses in transit, and losses from shipping fever after animals reached their destination, suggested a need for such insurance.

Rates.- Although the amount of insurance granted by the 3 associations in the South was based upon the appraisal and could not exceed 75 percent of that figure in Mississippi or 80 percent of it in Arkansas and Louisiana, the premium was determined by applying the rate to the full appraised value. The Premium rates, originally the same for all kinds and ages of animals insured, were 5 percent in Mississippi and 4.5 percent in Arkansas and Louisiana. Usually the value of an animal, and consequently the amount of insurance granted as well as the premium collected, decreases with age. The experience of the associations showed, however, that losses per $100 of insurance increased progressively after about age 7. All of the associations eventually geared their rates more closely to age so as to reflect the increase in mortality rates that is associated with increase in age of

animals. The rate for horses remained the same as for mules of the same age, although a limited experience with horses indicates that their mortality rates are higher at most ages than those for mules.

The later rates of the Arkansas association, as percentages of appraised value, was 4.5 percent for animals aged 1-7 years and 6 percent for animals aged 8-15 years inclusive. In Louisiana the premium rate was 4.5 percent for animals aged 1-10 inclusive, and if the insurance on an animal was being renewed, the rate increased one-half of 1 percent for each year of age beyond 10 to and including age 20. A rate of 10 percent applied to animals aged 11 and upward if they had not been previously insured by the association. The rate for animals above age 20 was a flat 10 percent of appraised value. Although the Louisiana association had set no maximum age on animals acceptable for insurance, a somewhat similar effect was accomplished by the high rates at the older ages. The Mississippi association charged a premium of 4 percent of appraised value for animals up to 6 years of age, 5 percent for animals aged 7-9 years, and 7 percent for animals aged 10-14 inclusive. The rate on breeding stock was a flat 5 percent of appraised value.

As these rates are applied to appraised values to determine the amount of premiums, they must be increased by one-half in the case of the Mississippi association, and by one-fourth in the case of the Arkansas and Louisiana associations to obtain rates as percentages of the insurance coverage.

The Utah association charged each member of a "bull bloc" a fee at the beginning of each year deemed to be sufficient to pay claims during the year without borrowing from its reserve fund. This replacement fee was originally $4 but was later increased to $7.50 per member.

Settlement of claims.- Upon the death of an insured animal its owner was expected to notify the association immediately. In the case of the associations in the South the inspection of the carcass in connection with proof of claim was usually made by the FSA supervisor. As most of the animals insured were mortgaged to FSA the proceeds of claims were usually paid jointly to that agency and to the owner, and in such cases were actually applied toward the purchase of another animal. The FSA attempted to replace lost animals with younger and better work stock.

Conclusions.- Membership of FSA clients in the livestock associations in Arkansas, Louisiana, and Mississippi was not at all compulsory, although some supervisors might suggest the inclusion of the insurance premium as a part of the FSA loan, particularly if the loan included funds for the purchase of an animal. Adverse selectivity, or the tendency for insurance to be taken on the older and poorer animals, could be reduced by a requirement that each loan application which includes funds for the purchase of an animal be accompanied by an application for insurance. If even a few supervisors should take the position that the insurance provided a means whereby older animals might be over-insured and soon be replaced by better ones, thus enabling the supervisor to improve the financial condition of the client, the increase in the loss rate was certain to be pronounced.

The establishment of maximum appraised values by 2 of the associations, in accordance with age and weight of animals, was a step toward the elimination of over-insurance. However, animals should be reappraised regularly by actual inspection. The appraised value of animals insured by the associations declined at about 5 percent for each year of age after age 7. An animal therefore could not be carried at its original appraised value or purchase price year after year without over-insurance developing. Furthermore, it might be desirable to include a clause in the insurance contract to the effect that an association had the option of replacing a lost animal with one of equal value instead of paying the claim in cash. A parallel situation is that of the fire insurance company which reserves the privilege of replacing a building instead of paying the claim in cash. Such an option would eliminate some of the moral hazard to which the associations would be subjected in a period of falling prices.

The insurance was of course intended to cover only unavoidable losses. Whether or not an insured animal lives out the year is dependent, however, to a substantial degree on the kind of care exercised by the animal's owner. The care and feeding of livestock, shelter, and the practice of having animals examined and treated regularly for parasites and bad teeth are therefore important parts of the insurance program.

It would appear that veterinary cooperatives such as those in Alabama, Florida, Georgia, and South Carolina might well be operated in connection with the insurance program. Through such associations the services of veterinarians are made available at low cost. In South Carolina, for example, each member was entitled, for a $1 fee, to take his animals to seasonal clinics for examination and treatment for minor injuries and ailments. At these clinics members were also instructed in the care of their animals. Such a program would render a valuable service to the associations. In fact the reappraisal of animals might well be done at the same time.

Aside from the initial grants made to three of the associations, FSA gave no further direct aid to the associations. It did advance to them in behalf of borrowers, the required premiums and membership fees in numerous instances. The associations also relied to a considerable extent upon FSA supervisors for the appraisal and listing of animals for insurance and for the adjustment of claims. In a great many instances a person interested in the insured animal from the association's standpoint does not see it either before or after a loss. This working arrangement with FSA obviously enabled the associations to hold their operating expenses below what they otherwise would be. It involved, on the other hand, the possibility that in some instances the insurance operations, always of paramount importance to the associations, might be pushed into the background by what may seem the more urgent phases of the FSA program.

That the above arrangement had worked fairly well was evidenced by the fact that the associations had accumulated moderate reserves. A fair appraisal of the livestock insurance program extends, however, beyond profit and loss figures. Through the insurance the incidence of occasional losses, which otherwise would fall heavily upon the few, is spread over the entire membership of an association. The insurance

also protects FSA to some extent by making it more certain that its loans will be repaid and that its rehabilitation program will succeed. This type of agricultural insurance is needed not only by farmers to whom FSA loans are made but by many others who, like FSA clients, find themselves greatly handicapped by the loss of one or two work animals.

Life Insurance for Borrowers*

A life insurance company, sponsored by a farm organization, was organized in Colorado in April 1938, primarily to write insurance on the lives of members of the farm organization and borrowers from the FSA. 41/ The company obtained a loan from FSA to begin operations and by 1945 was licensed to operate in 9 States: Arkansas, Colorado, Minnesota, Montana, Nebraska, North Dakota, Oregon, Texas, and Wyoming. At that date it operated under fraternal benefit laws, on a legal reserve basis, and had approximately 19 million dollars of insurance in force, with policies averaging about $1,000 each. Policies, including term insurance, might be obtained for as little as $500, and insurance might be obtained on juvenile as well as adult lives. About 90 percent of the policyholders were farmers, most of them in the middle and lower-income groups.

The company featured a "deposit fund" plan in connection with those of its policies that required a higher premium than for ordinary life insurance, as for example in connection with "20-pay-life" and endowment policies. Under this plan, that portion of the premium above the cost of the ordinary life policy is considered a savings deposit and is held in a separate account from the reserve on the ordinary life policy. This fund may be withdrawn at any time by the policyholder without disturbing the underlying ordinary life insurance. Its withdrawal is not considered a loan and no interest is charged on the funds withdrawn. Such withdrawal will of course make the contract in effect an ordinary life policy without any limited-pay-life or endowment features. The deposit fund idea is also used in connection with a "term-to-age-65" policy for the purpose of providing a burial fund of $250 upon the expiration of the term insurance at age 65. This complete segregation of the savings from the protective features of the insurance is intended to add flexibility to the insured's savings program.

Group life insurance.- Group life insurance was made available to debtors of the Farm Security Administration with the incorporation, in April 1941, of a legal-reserve life insurance company under the insurance laws of the District of Columbia. 42/ The company was organized by 5 other life companies to provide insurance in limited amounts, at low cost, to farmers financed by FSA. Paid-in capital of $100,000 and surplus of $75,000 was supplied by these companies. The company's operations were confined to its dealings with FSA and company officials retained their connections with the parent companies.

Ten-year term insurance was offered to FSA borrowers under 2 plans (1) to borrowers who are acquiring real estate, with the privilege of

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* Prepared by Ralph R. Botts, Bur. of Agr. Economics.
41/ National Union Security Association, 3501 East 46th Avenue, Denver, Colorado.
42/ Washington Life Insurance Co., 1524 K St., N.W., Washington, D.C.

renewal for an additional 10 years, and (2) to rehabilitation clients, without the renewal privilege. After an insured ceased to be obligated to FSA his insurance continued only for the period for which premiums are at that time paid, and might not be renewed. On December 31, 1943 the company had $7,522,000 of 10-year term insurance in force, all of which was reinsured with the parent companies.

Veterinary Cooperative Associations

In many localities throughout the United States, but particularly in the South, groups of small farmers organized cooperative veterinary service associations. As of December 31, 1943 there were 195 associations under the supervision of the Farm Security Administration. 43/ Of this number Region V had 141 and Region VI, 44. The remaining ones were divided among 5 other regions. More than 27,000 farmers or about 140 per association were active members.

Generally the associations were set up on a county-wide basis and a signed agreement was worked out with the county veterinary society whereby the veterinarians inspected the stock (usually limited to mules, horses, cattle, and hogs) either at regular intervals on members' farms or at organized clinics, and gave preventive treatment against common diseases. Emergency visits were made if an animal needs special attention.

Several arrangements were used for paying for the services rendered by the veterinarians. Some associations had a fixed amount for one year's services. This annual fee varied with different associations. Then some agreements provided for payment on the basis of a certain fee per call. A typical veterinary association in Region VI was one in Pulaski County, Arkansas. Each member was charged $1.50 per mule or horse and $1.00 per cow. The funds were pooled and checks written on the pool. Region V used a uniform agreement covering all its veterinary associations whereby each farmer contributed $2.50 into the pool for a year's service, and $1.00 for emergency medicines. The veterinarian was paid one-twelfth of the total each month irrespective of the amount of service rendered. The money was handled by a bonded trustee. The same trustee, in most counties, acted for the veterinary association, the medical, dental, and sanitation programs.

The FSA has not decided upon any definite or uniform agreement to be used in all veterinary cooperative associations. The general attitude has been that each association could work out its own agreements with the veterinarian. In part, this has been the case since many of the associations were not operating with the benefit of a direct loan and therefore close supervision to protect FSA's financial interest was not deemed necessary.

The different agreements drawn up by various associations generally provided for: An annual clinic inspection of all animals; vaccinations for the prevention of lock-jaw or other contagious diseases where deemed advisable; elimination and prevention of intestinal parasites; office calls and consultations; and medicines and surgery as prescribed by the veterinarian.

43/ FSA No. 1 Report, Part IV, Table 4-E as of Dec. 31, 1943.

Problems

The absence of objective and comprehensive study of the wide variety of associations that have been organized or assisted does not permit any generalization as to the success or failure of these associations in the aggregate, as to the most effective methods of organization and operation, or as to their relationship to the rehabilitation of the individual standard loan borrower.

A basic question was whether high-risk credit is to be provided cooperative associations, aiding low-income farmers, just as it is to individuals in order to achieve the economic and social goals of rehabilitation. If such credit is not to be provided, then the problem is how to get cooperatives to meet the needs of farmers of the standard loan type and how to get such farmers to participate in and use these associations where they will meet a real need.

Another question is whether Federal agencies are to be permitted to assist or carry on experiments to test out the comparative advantages of various forms of rehabilitation tools and techniques in different situations where such trials appear to run counter to the generally accepted institutions and the dominant social controls.

CHAPTER 13

HEALTH SERVICES*

Soon after the rural rehabilitation program started, poor health and physical disability were recognized by supervisors as concomitants of economic failure. Later physical examinations of representative groups of borrowers indicated that defects were widespread and serious (these are summarized in Chap. 6). All of the studies and physical examinations confirmed what was common knowledge to the county supervisors. Not infrequently, farmers were found who had been going on for years with some partially disabling chronic condition. Many of these people had hesitated to consult their physicians, knowing that they could not meet the charges for services. Minor ailments had often been uncared for until they became serious and often operating capital goods, such as livestock or farm tools, had to be sold at a sacrifice to pay for a surgical operation or prolonged hospital care. Because of its unpredictable nature for the individual, acute sickness often unbalanced a carefully developed plan charting a family's course toward economic and social rehabilitation. Such plans ordinarily were budgeted to the last dollar and when emergencies arose were not flexible enough to allow for added obligations.

Three basic problems with respect to health seemed to underlie the families' difficulties: (1) a lack of health personnel and facilities, (2) a lack of ability to pay for such medical services, and (3) lack of preventive services, proper nutrition, and sanitation. In certain States from 15 to 20 percent of the complete rehabilitation failures

* Prepared by Olaf F. Larson, T. Wilson Longmore, and Paul J. Jehlik, Bur. of Agr. Economics.

were attributed primarily to ill health. 1/

Out of such conditions developed the health program. The medical, dental, and hospital-care associations have been the most striking aspects of this program. The objective was to make medical care available to all of the rehabilitation families receiving financial and supervisory assistance to lessen the impact of sickness by providing a mechanism whereby the families might budget a definite amount for medical services of the widest possible scope. This was supplemented by other health measures. The live-at-home program to provide more and better food and the educational efforts of the home management supervisors to improve diets undoubtedly helped to improve health. The environmental sanitation program to insure a safe water supply, to provide proper methods for the disposal of human waste, and to get dwellings screened to control transmission of disease by mosquitoes and flies are also aspects of the health program.

Development of Policies for Medical and Dental Care

Under the Federal Emergency Relief Administration.- The FERA granted authority to the States on June 23, 1933 to use Federal funds appropriated by the Federal Emergency Relief Act of 1933 for the payment of medical attendance and medical supplies for those families receiving relief. 2/ Medical care in the home as provided under the FERA regulations included bedside nursing care, as an adjunct to medical care, and emergency dental service for those families that were receiving relief. Provisions for the payment of hospital bills or for general institutional care, however, had to be provided through State or local funds.

A uniform policy with regard to the provisions of medical, nursing, and dental care for indigent persons in their homes was intended as the basis of agreement between the relief administration and the organized medical, nursing, and dental professions, State and/or local. The policy adopted was to recognize within legal and economic limitations the traditional patient-professional relationships and to obtain the same type of service for an indigent as for a private patient but at lower cost. Agreements between the State and/or local relief administrations of the FERA and the organized professional groups of physicians, nurses, and dentists provided for a fee schedule covering the basic and special services that were to be furnished by the different professional groups. All authorizations for medical, nursing, and dental care were issued in writing by the local relief offices. Conservation and maintenance of the public health was recognized as a primary function of Government.

Under the FERA program improved health services were made available to rural families on relief. 3/ Clinical facilities, including emergency dental care, were extended where practicable. Public health

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1/ Farm Security Administration, The Medical Care Program for Farm Security Administration Borrowers, revised, May 15, 1941, 12 p.
2/ "Rule and Regulation No. 7", Monthly Report of the Federal Emergency Relief Administration, Aug. 1, to Aug. 31, 1933, pp. 17-23
3/ Josephine C. Brown "Rural Families on Relief" Annals of the American Academy of Political and Social Science, 176:90-94, Nov. 1934.

units were strengthened. Active campaigns were conducted to eradicate hookworm and malaria, to correct malnutrition, to detect and care for tubercular suspects. Following the establishment in 1934 of the Rural Rehabilitation Division within the FERA, a policy was adopted of including cost of medical care along with subsistence and capital goods provided under the program. This was the first attempt to have relief recipients pay for medical care out of their earnings. Generally, the same policy was carried on throughout the period when rehabilitation was under the FERA.

Under the Resettlement Administration.- In 1936, about a year after the organization of the Resettlement Administration, attention was given to the establishment of organized medical care programs for needy farmers who were classified as active standard borrowers. By the time the RA issued its first annual report it was ready to say "the most urgent and perplexing problem confronting the Resettlement Administration is that of providing adequate medical, dental, and hospital care for fees the people can afford to pay." 4/

A group approach was already under way on a small scale. The Administration reported: "It appears that loans to individuals to participate in health or medical associations will also be much in demand." The program began to develop because of the need for it, and a growing recognition of the principle of sharing risks of sickness and pooling economic resources in meeting the costs of medical care.

Medical care during this period was limited principally to the treatment of emergency injuries and acute illness. Problems of physical defects and chronic disease were yet to be solved. Little was known about the extent of chronic conditions or how closely they were related to rehabilitation. The first plans were necessarily experimental and differed widely in type of organization. Rather sharp criticism was received from organized medicine on some phases of the program but much of it was due to the character of some of the early program developments.

Certain basic principles of operation were followed in developing the program. These include a free choice of physicians, group prepayment, family contributions based on average incomes, and voluntary participation. A working agreement or understanding with the professional group was considered prerequisite to the development of local medical service plans, and all medical aspects of the plan were under the control of the county medical society.

Under the Farm Security Administration.- The same basic principles were continued under the FSA with the addition of free choice of hospitals and druggists as the program became more inclusive. The tendency of the program over the years was to broaden the services provided. There was difficulty in defining the limits of the service, but generally it was interpreted to cover acute illness or acute recurrences of chronic conditions that interfered with the earning capacity of a borrower, endangered his life, or was likely to develop into some permanent handicap. Obstetrical service was included.

4/ First Annual Report, Resettlement Administration, Washington, D.C. 1936, p. 93.

Later with an increase in the amount of prepayment, greater liberality in surgical work was possible and some plans included limited hospitalization and more drugs, and some offered dental service.

Membership in health associations for medical care has been restricted to FSA clients and to persons eligible to become FSA clients in all but a few units throughout the country. Under the plans the entire family was entitled to service rather than the head of the family alone.

Organizational Development of Cooperative Health Associations

Administrative organization within the RA and the FSA.- On January 2, 1936 a Public Health Section was established within the Resettlement Administration. This unit was headed by a medical officer detailed from the United States Public Health Service. As the work continued at the national level it was in charge of the Chief Medical Officer, a member of the Administrator's staff on detail from the U. S. Public Health Service. As of this date, his functional responsibilities are to advise, assist, and report to the Administrator with respect to policies and procedures regarding health, including medical care, dental care, hospitalization, nursing, physical rehabilitation, physical examinations, environmental sanitation and health activities of the agency for families of rural rehabilitation and farm ownership borrowers, migratory agricultural workers and occupants of resettlement type projects. He cooperates with the division directors and other agencies to formulate, recommend and develop a broad program of health care for low-income farm families and farm laborers. This also includes the planning for enlistment, cooperation and assistance of all public and private agencies engaged in health activities so as to obtain the proper coordination between their health programs and that of the agency.

On the regional level the program is in charge of the health services specialist who acts to carry out the policies and procedures as established on the national level. He works closely with State and county medical societies in the development of local plans and serves to assist the county groups in organizing for the operation of their plan. Besides the regional health services specialist, there are a regional medical officer, sanitary engineer, and dental officer who give technical assistance to the health services specialist and the regional director. There are now no specialists below the regional level, all work in the States, districts and counties being carried on by the regular administrative and supervisory personnel with the aid of the regional specialist. At one time some of the regions employed state health services specialists.

During the first year of operation under the Resettlement Administration, the health program devoted most of its attention to educating the staff on desirable standards of public health and sanitation and on public health and medical needs. A few group health associations were formed by Resettlement clients, both rehabilitation and project. Much of the first 2 years of operation of the medical-care program was of an experimental nature directed toward the development of types of organization and methods of approach that were to furnish a pattern for the type of service that was to be rendered later.

Dental programs followed soon in the wake of the medical care-programs, their need having been demonstrated through physical examinations. The first dental programs were of an emergency nature and followed a pattern similar to the organization of the medical-care plans as it was not then realized that there was a difference in providing dental care as contrasted to medical care. Dental service was organized in combination with medical care and often was rendered on the advice of the attending physician. Soon after the initial beginning it was found more practicable to organize many of the dental units separate from the medical units. However, prepayment, local organization, and voluntary participation remained common to both the medical and dental-care programs.

Plans of organization of local dental programs differed considerably since local dental societies were generally left the responsibility for working out details with representatives of the agency. Later the trend has been toward working out agreements with the State Council on Dental Health (or its equivalent), thus greater uniformity in plans may be expected. Even after several years experience, however, and because of the nature of the problem, the program has remained largely of an emergency character. 5/ The chief emphasis has been on the eradication of sources of infection.

In addition to the health programs for farmers being rehabilitated "in place" or for families in resettlement projects, there has been a program for migrant agricultural families. Many thousands of migrant farm families who sought work in the various harvests in the Pacific and Atlantic coast States could not pay for medical attention nor could they get it through relief agencies. In 1936, the RA began helping the States to meet some of the most urgent health and housing problems created by this wave of migration. Temporary shelters, permanent camps, and sanitary facilities were provided. Within each of the permanent labor camps a health center was set up with a public-health nurse in charge. A mobile clinic with a nurse in charge was assigned to each of the larger mobile camps and State health departments assisted in providing immunizations and in conducting preventive activities.

In the spring of 1938, the Agricultural Workers Health and Medical Association was established in California to (1) deal immediately with the acute emergency and (2) lay the foundation for a permanent rural-health program. This was a nonprofit organization which the migrants could join as members. It was subsidized by grants from the FSA and was administered by a board of directors on which were represented the California State Health Department, the State Medical Association, the State Dental Association, and the Farm Security Administration. Throu[gh] agreements between the association and the various professional groups in California and Arizona, migrant families could obtain necessary medical care, hospitalization, limited dental care, and prescribed dru[gs]. Similar medical-care corporations were later organized in four other areas, (1) the Pacific Northwest, (2) the Rio Grande Valley in Texas, (3) Florida, and (4) the Atlantic Seaboard States including North

5/ Margaret Lantis, M. R. Hanger, and Philip W. Woods, The Farm Security Administration Dental Program of Randolph County, Ga., Bur. of Agr. Economics.

Carolina, Tennessee, Virginia, Maryland, New Jersey, Delaware, New York, and Connecticut. In July 1943 the farm-labor program was taken over by the War Food Administration.

Organization of groups of borrowers.- Following the first years of experimental development of a limited number of medical care units throughout the country to provide rehabilitation families with medical aid, the program grew rapidly until 1942 when the largest number of active medical and dental care units were reported. At that time 787 medical and 221 dental units were in active operation in 41 States. (table 13). Families then participating in the medical associations numbered 109,029 and 33,045 families were covered by separate dental programs. Most of the families were rural rehabilitation borrowers but families in other FSA categories were also included, such as tenant purchase and resettlement project families. In 1939, 113,718 families belonged to medical groups, representing the peak in membership for this type of association. Part of this large number was accounted for by the large memberships in the North and South Dakota Statewide plans which represented more than one-half of the total national membership.

The earliest and most rapid growth in terms of numbers of associations took place in Regions V, Vi and VII (tables 62 and 63, Appendix). During the 1942 peak year of activity, the four southern Regions had 65 percent of all the active medical associations and 88 percent of the dental associations. The decline in numbers of medical and dental groups from 1942 to 1943 may be attributed principally to three factors, (1) loss of professional medical personnel in the rural areas through inductions into the armed services, (2) a reduction in number of families on the rural rehabilitation program, and (3) an increase in farm income which made many farmers inclined to take the risk of medical expenses individually. Some groups were modified to compensate for the reduction in available medical facilities.

Table 13.- Number of active medical and dental care plans and number of families participating as of June 30, 1936-1945 1/

Fiscal year	Medical care		Dental care	
	Units	Families	Units	Families
1936	8*	**	—	—
1937	142*	**	1	**
1938	203*	**	7	**
1939	396	113,718	32	**
1940	546	78,053	67	8,893
1941	703	104,224	159	23,450
1942	787	109,029	221	33,045
1943	763	90,111	208	27,443
1944	592	54,546	195	16,529
1945	469	33,962	186	11,122

1/ Source: Annual reports of chief medical officer, FSA, for June 30, 1941-44 and FSA for 1945. Region XIII included. Medical care plans include those also offering other types of service than physician and surgeon. Dental care plans include only that service.
* Counties rather than units.
** No data available.

Available data for 1941 show that the medical and dental associations averaged 128 and 112 families, respectively. In 1943 the average for the two types combined was 119 families. 6/ This indicates that little change had taken place in the average number of families belonging to associations. It may be considered as a little high inasmuch as the district and State Associations tended to bias the average upward.

Operation of Medical and Dental-Care Cooperatives

The basic principles upon which the medical-care plans were developed have deviated but little from the following principles laid down in the beginning:

"1. Free choice of physician. The general policy is to develop no medical service plans in a State until a basic working agreement has been reached with the State medical association. Their county or district plans are organized in collaboration with local medical societies. The plans provide for medical society supervision over medical aspects of the program. Enrolled borrowers have free choice of physician from among those participating, usually from among all legally qualified physicians in the area. There is no interference with the personal relationship between physicians and patient.

"2. Group prepayment. Family participation dues are paid in advance on an annual basis. Borrowers are often assisted in making such payments, ordinarily through loans. The funds deposited by each family are placed in a pooled or common fund in the hands of a bonded treasurer or trustee, and from monthly or quarterly allotments of this fund payments are made to physicians, hospitals and druggists.

"3. Family contributions based on average income. Participation rates are in general commensurate with average incomes of FSA borrowers in the area. The rates for a particular plan depend on the services covered and often upon the size of family as well as upon average income. When a given rate is beyond the ability of a family or a group of families to pay, an effort is made to base the family contribution on its ability to pay and some provision is made for supplementing the amount to the extent necessary.

"4. Voluntary participation. The borrowers are never compelled to participate. The local plan is present to them; whether or not they become members is entirely for their decision. But in most cases economic necessity itself is a compulsion---." 7/

6/ Farm Security Administration, Monthly FSA activity report, FSA Rept. no. 1, Dec. 31, 1943, Table 6 A.
7/ Farm Security Administration, Office of the Chief Medical Officer, Annual Report, fiscal year 1940-41, Washington, D. C., p. 16.

Agreements with State and County Medical Associations.- Working agreements or understandings with each State medical association are considered a prerequisite to the development of local medical service plans. Under the general terms of the State agreement, the local plans are worked out with the county medical societies. Details are usually worked out with representatives of local physicians, hospital boards, and pharmacists and vary considerably in accordance with local needs. In general, all physicians and dentists who are duly licensed in, and residents of, a given State are eligible to participate in an FSA program if they wish.

Membership eligibility.- Most plans provide that only persons who are clients or persons eligible to become clients are eligible to membership. The plans were set up to serve low-income, medically needy farm people. The generally accepted idea is that rehabilitation borrowers constitute the low-income group and that many of them are in need of medical care. Generally the whole family is entitled to service, rather than the head of the family only. The work "family" in most cases is construed to include all of the individuals in the immediate family of the head, and other persons of the household who are dependent upon the head for support. In a few cases local physicians have requested and have obtained admission to membership for low-income farm families who were not rehabilitation borrowers. This was true chiefly in Utah and Montana. In some cases provision is made to continue paid-up borrowers in membership, as in the unit at Pierre, S. D. About 99 percent of the total membership in all the units, however, are clients of the FSA.

Form of Organization.- Two fairly distinct forms of organization have been used in setting up medical care units. 8/

1. Trusteeship. In a simple trusteeship there is no definite organization which the families join as members, although there may be an elected or selected "advisory committee" or "governing body" of borrowers representing their interests. The borrowers sign participation agreements designating someone as trustee to represent their interest and to administer the medical care fund. The trustee is usually a "neutral" person who is neither a borrower, a physician, nor an FSA representative. About 65 percent of medical care units in 1941 were of the trustee type.

2. Health Associations. Where health associations of borrowers have been organized, they are ordinarily informal, unincorporated associations. The board of directors are elected by the members at county-wide or neighborhood meetings. In certain States there are FSA representatives on these boards. The medical care funds are administered either by the treasurer of the association who may as a rule be a nonmember, or by a trustee approved by the board, the medical society and FSA representatives. Associations constituted 35 percent of the medical care units in 1941.

8/ Ibid, p. 9

Geographic scope.- About nine-tenths of the medical care units in operation are limited geographically to one county each and most of the remainder to two counties each. Two of the large district plans in New Jersey and in Vermont are Statewide. Other large district units are in southwest Kansas, in Montana, and in South Dakota. Almost all dental care plans where operated independently of medical care plans are on a county wide basis.

District plans in the medical care program have been considered particularly essential in the case of a small scattered caseload. However, certain advantages have been found even in districts with substantial caseloads. The larger unit permits broadening the insurance base and simplifies the task of negotiating with professional groups that frequently are organized on a district basis. The larger unit permits more efficient business administration and the broader base is considered more necessary for the satisfactory handling of hospitalization and bills for surgical care. One variation of the district plan is found in Montana where medical-care units are on a county basis but an over-all district association deals with the physicians on a district basis. This type of organization combines the efficiency of a district organization while fostering the development of local initiative and local responsibility.

Scope of services offered.- During the early years of the program, the medical care provided to families was necessarily limited to that care essential to the treatment of acute illness, though so far as possible provision was also made for the correction of chronic defects that are a retarding factor in rehabilitation. In general, the emphasis in developing the medical-care program has been to make it cover the widest possible scope of services that can be offered, that is, physicians' care, surgeons' care, hospitalization, drugs, and dental care. Certain differences have been found in the over-all offering of the plans from region to region owing to the availability of services for the medically indigent outside of the FSA. For example, free or low-cost hospitalization and surgical care are available to medically indigent families, including most FSA borrowers, in certain States such as Pennsylvania, North Carolina, Mississippi, and Louisiana.

Of the families enrolled in medical care programs at the end of the fiscal year 1942, 99 percent were entitled to physicians' care, 64 percent to surgeons' care, 58 percent to hospitalization, 42 to drugs and 14 percent to dental care. 9/

Physicians' services generally include those services ordinarily rendered by a general practitioner, that is, office, home and obstetrical care. Surgeons' services in most units relate mainly to major surgical services rendered hospitalized patients and usually are cases of an acute or emergency nature. In some units this service also includes the care of other specialists or even of general practitioners rendered in the case of hospitalized patients.

9/ Goldmann, Franz, "Medical Care for Farmers", Medical care, Vo. 3, No. 1, February 1943.

Hospital service refers generally to ward care and the benefits ordinarily include such services as the use of operating room, anaesthetics, X-ray, nursing, and certain drugs. Often a limitation is set on the number of days of care provided in a given case or provided for an individual or a family on an annual basis. Thus, in the unit at Pierre, S. D. a limit of 15 days "in any one illness" was set. The agreement between the Davis Hospital, Pine Bluff, Ark. and the FSA allows 20 days care a year.

Drugs listed as included in the services offered in a given unit generally imply that some definite provision has been made for furnishing ordinary medicine usually including prescribed drugs. In most units, such drugs as the physicians themselves ordinarily dispense are included in the benefits even though drugs may not be listed among the services.

Dental care ordinarily refers to very limited emergency dental care, usually extractions to relieve pain or to eradicate infection. More recently, however, many dental programs have been offering services ranging from extractions on the recommendation of a physician to complete dental care including dentures. The more complete service is given in those dental programs which operate independently of the medical-care program. The office of the Chief Medical Officer has estimated that 80 percent of the service furnished by local dentists to member families consisted of extraction.

Most medical-care units provide limitations in the services provided hospitalized cases of chronic illness and pre-existing conditions. Some plans for general-practitioner care include a limitation of only one office or home call per week in the case of chronic illness. But the trend has been toward liberalizing the services essential to the treatment of chronic or pre-existing conditions that may constitute a hazard to the health of the individual or may hinder rehabilitation. The program in Montana includes "all reasonable medical and surgical services" and the California program includes the care of any chronic conditions found in children under 18 years of age.

Costs of service to members. In the beginning of the medical care program fees ran from $14 to $20 annually per family. Possibly fees were so low because all of the financing was on a grant or loan basis, with the RA supplying the money. Since then these amounts have been increased some as services have been expanded. For example, in Region VII, the rates range from $27 to $57 per family. In the Pierre district Medical Aid Society the rate is $33 per family and it pays for emergency service by general practitioners, specialists, and dentists, hospitalization up to 15 days, drugs and home nursing. In Yell County, Ark. the basic annual rate per family is $10, with an additional $1 for each member of the family up to eight persons. These prepayments cover general practitioners' care at the office or in the home of the patient. In this county a basic rate of $3.50 per family plus 50 cents for each additional member is charged to cover emergency service under the dental plan.

Annual prepayment is universal. The rates charged are determined locally according to the type of program, the services offered, and the financial ability of the borrowers. In some groups there is a

flat charge per family; in others, a sliding scale according to size of family is used. Generally the rates in the Southern regions for comparable services are lower than those in the Northern or Western regions, in some cases being only one-half as much. When determined as a percentage of the average annual net income 10/ of FSA borrowers, the annual prepayment in 1941 ranged from 1.6 percent for physicians' service only to 6.7 percent for physicians', hospital and dental services.

Virtually all membership rates are determined locally by regional, State, and local FSA personnel in conference with the physicians concerned. Out of the variety of rates established for various combinations of services in widely scattered localities, a certain degree of uniformity has been maintained between rates and service on the one hand, and, on the other, average family incomes in given States.

Methods of paying professional groups rendering service.- Considerable variation has been experienced in the matter of distributing funds to the medical practitioners who render services but certain features are characteristic of the program. Fees or rates to be charged are set by the professional groups and the review and auditing of bills is handled by committees representing the groups rendering the services. Ordinarily the annual pool of funds deposited by members for doctors is divided into equal monthly amounts. The bills submitted for a given month are then prorated against that month's allotment and paid in full if the allotment is sufficient. Any surpluses at the end of the year are prorated against unpaid balances of doctors' bills and then, by agreement, bills are written off as paid in full.

Several variations of the allotment plan have been used. Some of these are as follows: (1) One fund may be used for office, home, and obstetrical care, and another for surgical or other specialist care; (2) one fund may be used for all physicians' services, including surgical care; (3) allotments and payments may be on a quarterly rather than a monthly basis; (4) larger allotments may be provided for the winter months; (5) surpluses may be distributed to increase allotments for remainder of the year or for the winter months; or, (6) payments made throughout the year may be limited to 50 percent payment on approved bills and the surplus funds distributed at the end of the year.

In some medical-care units, the capitation basis of paying physicians is used, that is, a physician is paid on the basis of the number of families selecting him rather than on the basis of the amount or type of service rendered each month.

Hospital bills have been paid in various ways: (1) Through a separate pooled fund, with hospitals agreeing to accept partial payment if necessary; (2) through a fund combined with surgical-care allotment with bills being paid from the same fund for both hospitalization and surgical care; (3) by having all funds for a month pooled in a single allotment, with hospital bills within certain limits being handled as preferred charges paid in full before further distribution of the

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10/ Includes value of products such as food and fuel produced on the farm for home consumption.

allotment; (4) by having all funds in one allotment, with hospitals accepting the same pro rata reduction in bills as the other professional groups; or (5) by having the whole matter of payments to hospitals handled by an existing group-hospitalization plan.

Dental-care bills under the separate dental program and which were paid on a fee for service or on a capitation basis were usually handled under the pre-payment and pooled-fund principles as in the case of the medical-care program. The individual plan involved the familys' making arrangements with the dentist for needed dental work and then borrowing from the FSA the necessary amount for this service. In the per-hour plan the dentist is paid a fixed rate per hour regardless of the type of work done.

Payment for drugs also involved several differing procedures: (1) Having a pooled fund combined with general practitioner-care fund with the druggists taking the same pro rata reduction, if necessary, as the physicians, or with druggists guaranteed a certain minimum "cost plus" payment; (2) having physicians include charges for prescriptions in their bills and making their own arrangements with the druggists; (3) making drug bills preferred charges, paid in full before physicians are paid; (4) having separate pooled fund from which full or partial payment of drug bills is made.

Experience with the payment of bills during the fiscal year 1940-41 showed that the approved bills usually exceeded the funds available for distribution. During that year and on the average, units offering physicians' service alone or a combination of various services paid the following fractions of approved charges: Physicians and surgeons, 61 percent (with a range by regions from 54 to 74 percent); hospitals, 74 percent (47 percent to 98 percent); druggists, 79 percent (50 percent to 100 percent); and dentists, 80 percent (72 percent to 98 percent). 11/ Units offering only dental services paid an average of 83 percent. If allowances were made for the scaling down of approved charges, the percentages would have been lower, how much is not known, since the extent of cutting is not known. But experience has shown that total collections compare favorably with those of earlier years before the group program was begun.

Relation to the rehabilitation agency.- In any consideration of the medical-care program cognizance needs to be taken of the relationship of that program to the rehabilitation agency. For at least two-thirds of the families participating, the growth of the program was stimulated largely by Federal personnel; that is, the program was not a spontaneous outgrowth of the families own initiative, but rather it was an answer to a need which the RA discovered in its early rehabilitation efforts. Aside from any humanitarian purposes that it had, it found as a lending agency that a family in good health is a better credit risk than one in poor health. Most frequently the creation of new medical-care units has been the result of agency personnel taking the lead in setting up financial machinery and in negotiating with State and county professional groups for developing the necessary health service.

Management of the medical-care groups under the trusteeship form of organization generally indicates that there is no definite organization

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11/ Goldmann, op. cit., p. 28.

which the families join as members, although there may be an elected or selected "advisory committee" or "governing body" of borrowers representing their interests. All of the medical aspects of the plan, of course, are under the control of the county medical society and all bills are audited and approved by a medical review committee before they are paid by the trustee.

Greater participation in the activities of the organization are enjoyed by families who are members of health associations than by those belonging to the trusteeship type of organization. The associations are ordinarily informal unincorporated groups. Boards of directors are elected by the members. In some States FSA representatives serve on these boards. The funds are ordinarily handled by a treasurer of the association who is usually a nonmember, or they are handled by a trustee approved by the board, the medical society, and FSA representative.

Wherever FSA borrowers cannot afford to pay for participation in the group health plans, loans are made to cover part or all of the prepayments. While grants were available much of the financing of the health program especially in the drought areas was through grants limited to $50 per year per family. Medical-care groups organized as trusteeships or associations ordinarily were financed by individual membership contributions. As of June 30, 1942, about one-fifth of all the medical, dental, and hospitalization groups were financed by loans. Direct loans to groups were made principally in the Great Plains, Great Lakes, Southwestern and Western Regions. Except for Region VIII, the Southern groups are of the trustee type.

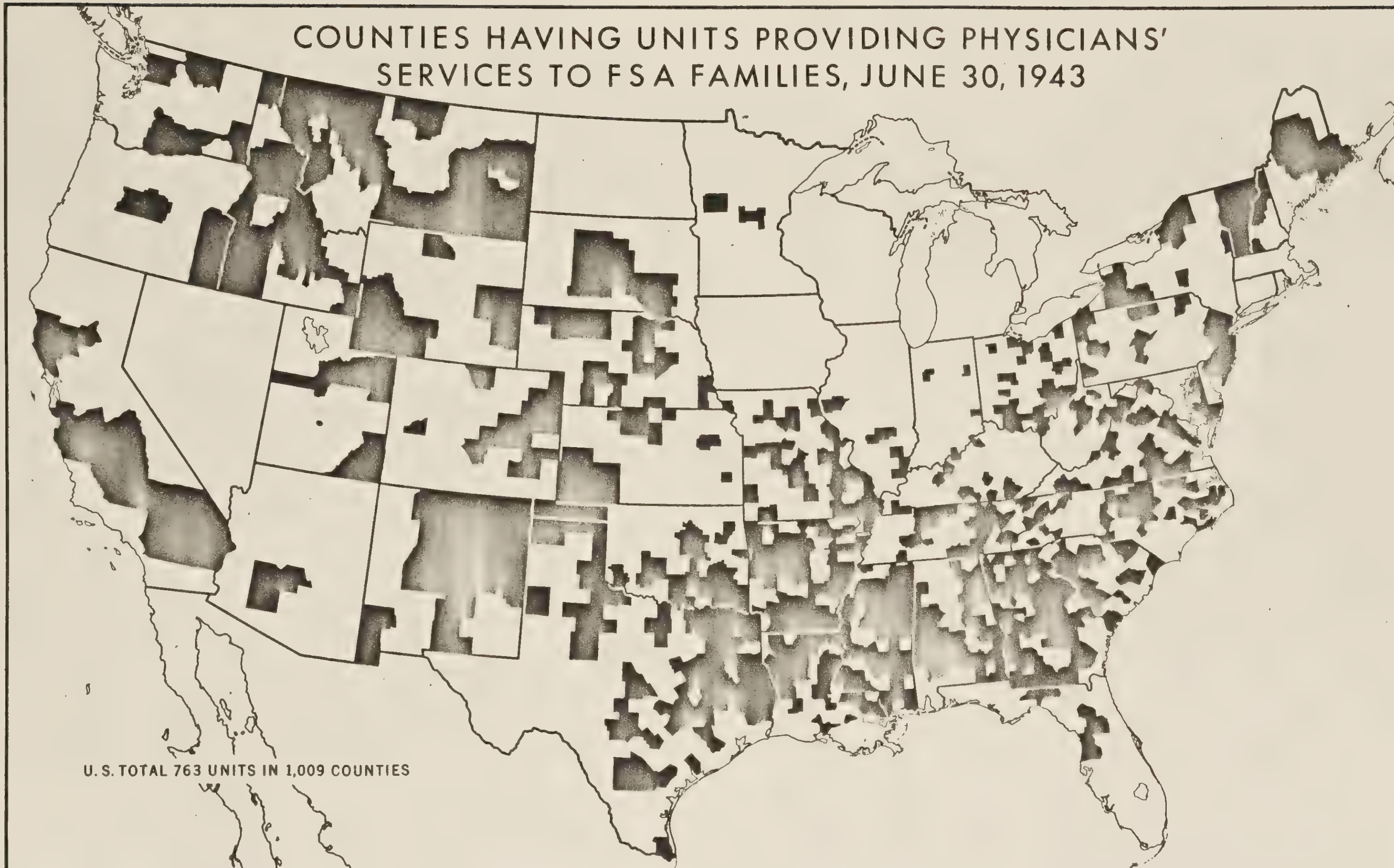
Results of the Medical and Dental-Care Program

Coverage of eligible families.- As units are not organized in two-thirds of the counties, many rehabilitation families have had no opportunity to join a health association of any kind. Probably less than one-third of the standard loan families have participated in the cooperative health associations and groups.

During the fiscal year 1940-41, 63 percent of the rural rehabilitation borrowers in the 881 counties in which medical care units were established were participants. 12/ The percentage of enrollment was more than 60 percent in only two of the Regions and under 50 percent in four of the eleven Regions with active units, as shown by the following tabulation:

Region	Percent RR Families Enrolled in Counties with Medical Care Units	Region	Percent RR Families Enrolled in Counties with Medical Care Units
I	50	VIII	20
III	38	IX	56
IV	46	X	54
V	85	XI	46
VI	68	XII	53
VII	58		

12/ Annual Report, fiscal year July 1, 1940-June 30, 1941, Office of the Chief Medical Officer, Farm Security Administration, p. 73.



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The factors underlying the differences in participation of families in medical units from region to region appear to stem from four sources. First, some of the FSA personnel had not assumed the proper responsibility for developing and maintaining the program — either they lacked a thorough understanding of the program or they did not consider it to be an integral part of the rehabilitation effort. Moreover, many families had a subconscious feeling that they were not a part of the plan and that they were not sufficiently represented during the development and operating stages of the unit and therefore did not participate. Often many physicians lacked understanding of the objectives of the program as well as of those of the rehabilitation program and made it difficult for families to participate. Then regional office administrative procedures were not always specific enough in tying the medical-care program to rehabilitation activities.

That not all eligible rehabilitation families participate even where provision is made for services is just as true of the dental-care groups. During 1940-41, only 59 percent of the rural rehabilitation families held membership in the dental-care groups in the 167 counties in which such groups were organized. 13/ The variation by regions was as follows: 14/

Region	Percent of RA Families Enrolled in Counties with Dental Care Units
II	14
III	19
IV	32
V	80
VI	38
IX	32
XII	75

Group health activities later concentrated mainly in the South and South Central Regions and to a somewhat lesser extent in other areas outside the Lake States and Corn Belt (see fig. 10, 11, and 12). They appear least frequently in the Northern areas of the United States. Their distribution may be attributed in part to the large number of rural rehabilitation borrowers in the chronically poor areas and to more general acceptance of the health program in those areas by the professional groups. Acceptance in those areas too is stimulated by the otherwise general lack of adequate medical facilities due mainly to the general inability of people to support them.

Effect on health of families.- Information on the effect of the medical-care program on the health of the rural rehabilitation borrowers is still too incomplete to permit any general conclusions. That the general health-improvement program through better diets is taking effect is indicated by physical examinations. Blood tests made of 2,659 persons aged 10 years or over from 843 FSA families in seven counties in southeastern Missouri showed 43.7 percent of the persons with less than 80 percent hemoglobin, indicating definite

13/ Ibid, p. 151.
14/ Data not available for Region XI which did have dental care units.

secondary anemia — a condition arising from malnutrition. 15/ When these persons were classified as to the length of time on the FSA program, it was found "although the percent hemoglobin did not improve in proportion to the length of time on the program the condition was significantly improved after the first six months. Among Negroes, however, the hemoglobin condition improved steadily as the length of time spent on the FSA program increased... In view of the stress placed upon nutrition and health by the FSA, the improvement is understandable."

The study does not indicate if any of this number of persons belonged to medical-care groups at that time. Therefore, the indicated improvement in condition of the persons examined cannot be attributed to the work of a particular medical-care group, but only to FSA's stressing the importance of good health.

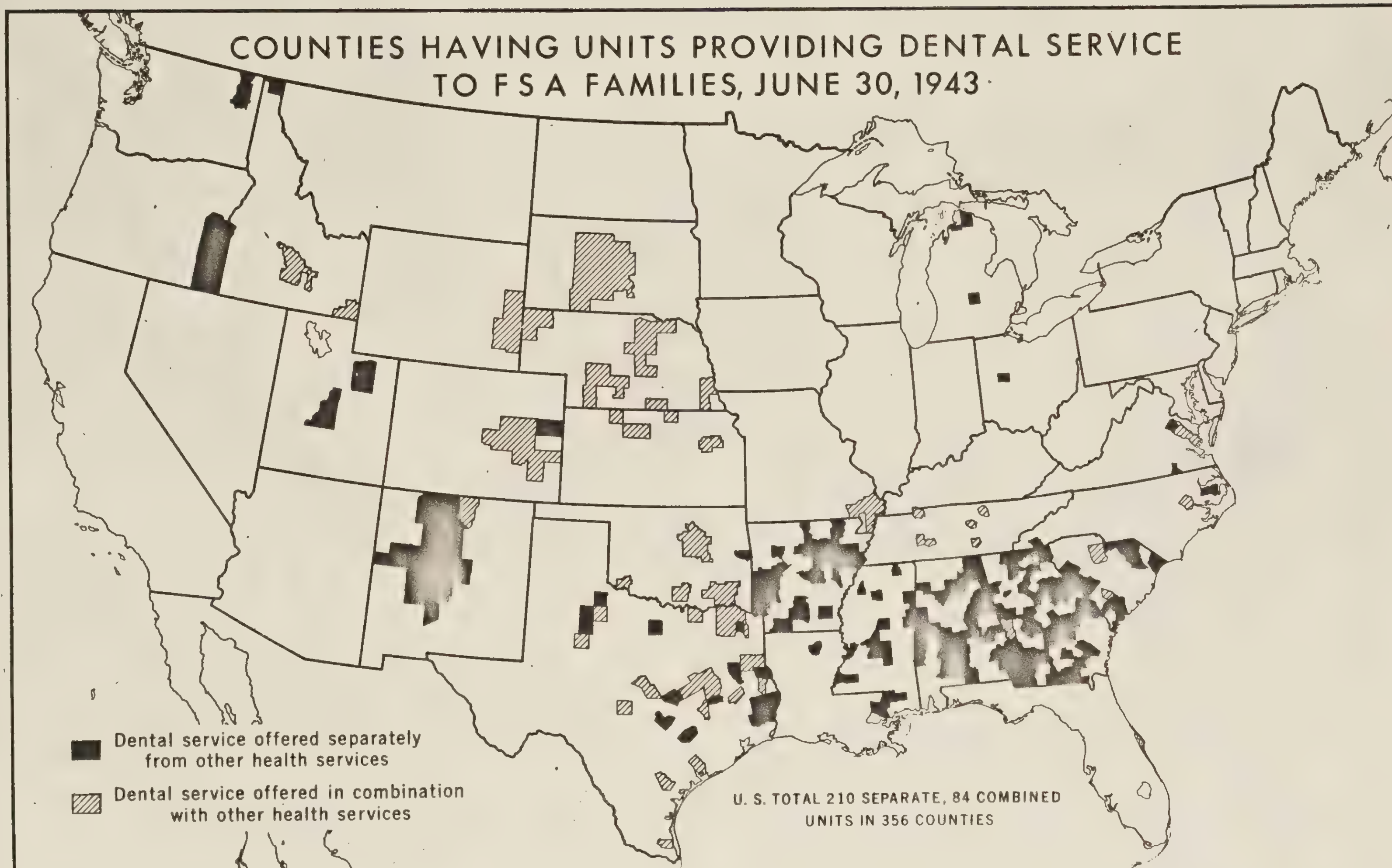
Poorer rural families have been observed to be learning to use the medical services that FSA and local doctors have provided them. They have learned from these experiences how to take better care of themselves. Many have had regular medical service for the first time. All have a feeling of protection because they can be prompt about taking care of illness, sometimes avoiding serious effects or costly treatment.

Relation to rehabilitation progress.- While most rehabilitation borrowers are repaying their loans and becoming self-supporting, it has been evident from the early days of the rehabilitation program that other families with equal opportunities were making slow progress. Poor health was found to be one of the primary factors which keep many of these families from becoming self-supporting. For example, in Michigan 18 percent of 305 families that were dropped from the rehabilitation program in one year failed because of ill health. 16/ Surveys in many parts of the country are reported as showing that the benefits of the program were being drained off in many cases by the effects of bad health. Many families would not call a doctor because they could not pay the bill. One survey of 43,000 families in Texas and Oklahoma showed 16,000 cases of serious illness among the families during the year. 17/ One out of three births had not been attended by a physician. Unquestionably such conditions as these retarded the rehabilitation effort. It is not possible to state the specific positive contribution made by the health associations to the rehabilitation of members but it seems a fair judgment that without such health services a considerable number of the rehabilitation borrowers would be in a worse position, economically and physically, than they now are.

Life cycle of individual associations.- As of June 30, 1944, a total of 1,241 health associations had been established. 18/ Of that number

15/ Lively, C. E., The Physical Status and Health of Farm Security Clients in Southeast Missouri, Preliminary Report No. 1, Results of blood tests hemoglobin, University of Missouri, Columbia, 9 pp. Apr. 1942.
16/ Farm Security Administration, Physical Status of Farm Security Borrowers as Indicated by Preliminary Studies of Examinations Conducted in Typical Counties, 12 pp. Washington, D. C. 1941, p. 3.
17/ Ibid, p. 3.
18/ Farm Security Administration, Monthly report of FSA activities, FSA Rept. No. 1, table 6-A as of June 30, 1944. Included are 27 medical-care units on projects whose classification with respect to the numbers active and inactive was not reported separately.

COUNTIES HAVING UNITS PROVIDING DENTAL SERVICE TO F S A FAMILIES, JUNE 30, 1943



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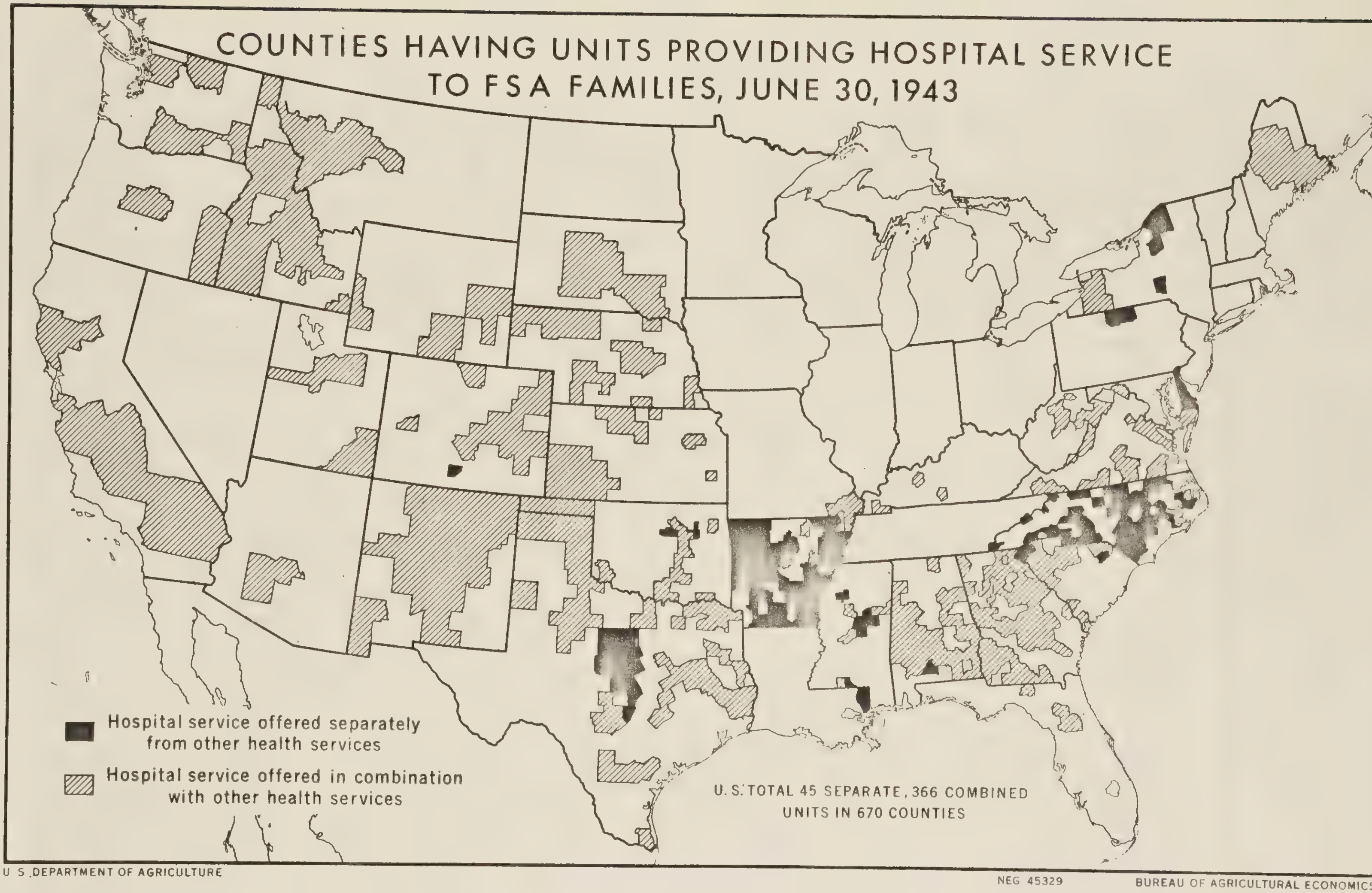
COUNTIES HAVING UNITS PROVIDING HOSPITAL SERVICE
TO FSA FAMILIES, JUNE 30, 1943
Hospital service offered separately from other health services
Hospital service offered in combination with other health services
U. S. TOTAL 45 SEPARATE, 366 COMBINED
UNITS IN 670 COUNTIES
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849 or 68 percent of all types of units still were active. When determined on the basis of the different types of units the following percentages were found to be active:

Type of Unit	Total Established	Percent active
Medical care only	530	53
Dental care only	190	83
Combination medical and dental	70	87
Hospital only	61	95
Combination hospital and medical	390	71
Total, all types	1,241	68

"Failures" among "medical-care only" units were higher than those in any other type. The fact that this type was the first begun and therefore was subject to greater experimentation and resultant losses than were the other types no doubt accounts in part for this.

But, in addition, physicians have left the rural areas in large numbers to go into military service. Units have necessarily been terminated because of sheer lack of available physicians in given areas. Defense activities also accentuated an existing problem relative to the shortage of physicians and the long distances which the few remaining doctors in many areas have to travel to make home calls.

For the 1941 fiscal year, 8 percent of the medical units active at the beginning of the year had been terminated by its close. 19/ In a few cases after necessary readjustments had been made, operation of units was expected to be renewed. That "hospital only" units indicated greater stability than other types may be due mainly to the fact that the physical equipment of hospitals is not subject to moving in the same way as doctors and dentists. Also, the attitudes of a small group of practitioners are not so likely to cause the break-up of a hospital unit as the break-up of a medical group. The "combination medical and dental" units enjoyed a relatively high degree of stability perhaps attributable to the more complete service available through this type.

More recent statistics indicate that separate hospital units are gaining membership while other types of group medical care are losing membership. Physician service groups declined from 829 units in March 1943 to 763 units in June 1943. During the same period hospital service groups increased from 12 units to 45 units.

The factors responsible for the termination of units are related to the three interested groups: The agency personnel, the families, and the physicians. The shortcomings sometimes encountered on the part of agency personnel have been summed up by FSA medical officers as:

19/ Annual Report, fiscal year July 1, 1940-June 30, 1941, p. 19.

(a) Lack of thorough understanding of the medical-care program, (b) failure to consider program as integral part of their rehabilitation efforts, (c) allowing pressure of other work to prevent giving adequate time to program, (d) apathy and indifference in some instances, (e) failure to provide for renewed participation in farm and home plans, (f) lack of effort to establish a close working relationship with physicians, and (g) viewpoint that the program is the sole responsibility of specialized personnel. 20/

A feeling, perhaps subconscious, among the families that the plan was superimposed and that they had too little to do with initiating, developing, and administering the program probably contributed to the lack of interest and assumption of responsibility for the success of the health programs.

Sometimes the situation in the local medical society or among individual physicians, extraneous to the actual functioning of the program, was directly related to the termination of a unit. Often this was due to a lack of understanding by the physicians of the medical-care program and of the general nature of the rehabilitation program. As a rule, the successful units were found to have strong medical advisory committees.

Stability of individual membership in associations.- Information on the proportion of families who join a medical-care group and who continue to participate as members until they leave the rehabilitation program is not available for the united States. Among 487 units that were in operation before the fiscal year 1940-41, the group as a whole had an increase in membership of 11 percent by the end of the year but in 13 out of 31 States there was a net loss in membership. 21/ Among individual States the net decrease ranged from 1 to 36 percent. These decreases may understate gross losses during the year as new members were being taken in at the same time old members were dropping out. Some of the decreases are due to deaths among members, some members are no longer eligible because their rehabilitation loans are repaid, and some have moved. In some cases, members withdrew because their family physician was not a participant or withdrew from the plan. Others withdrew because they thought they were treated as objects of relief or charity rather than as paying patients. Still others discontinued because they did not want to increase their debt by borrowing funds to participate. There is also some tendency to withdraw after a year when no medical service is needed. Generally, families do not remain in the program after they have paid off their loans.

A study of membership turn-over in five southern Ohio counties reveals that of 224 households participating in the plans as of June 30, 1943 only 54 households had maintained continuous affiliation since 1940 when the groups were organized. 22/

Relations with professional associations.- As a result of the medical-care program the medical purchasing power of a number of low-income

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20/ Ibid, p. 19.
21/ Ibid, pp. 69-70
22/ Robert L. McNamara and A. R. Mangus, Prepayment Medical Care Plans for Low Income Farmers in Ohio, Bul. 653, Ohio Agr. Expt. Sta., Wooster, Oct. 1944, p. 21.

rural families has been increased substantially. In some areas, the program has helped to continue medical facilities that otherwise might have been discontinued. Instances have been found where physicians moved into an area because of the organization of medical-care groups of FSA borrowers. In some cases inactive medical societies have been revitalized and physicians have been awakened to the needs of medically indigent rural families. They have learned that group action offers an opportunity to meet sickness needs and that it is possible for a governmental agency to help them formulate and shape up better policies for administering medical care. On the other hand there is some dislike for the present plans which emphasize emergency service rather than general adequate care. For some practitioners the payments for services have been disappointing and for others the plans have been only another means of collecting for services.

In 1942 the Bureau of Medical Economics of the American Medical Association sent questionnaires to the secretaries of the State medical associations. Seventy-five percent of the replies said that relations with the FSA were generally satisfactory. 23/ The societies also generally were agreed that the families covered by such plans were receiving more or better and earlier medical care than they had received without any plan. Also pointed out was the fact that physicians had been receiving more money than they had been able to collect from the families under individual practice.

At a meeting of the American Medical Association held in Cleveland, Ohio, June 2 to 6, 1941, the report given by the Reference Committee on Legislation and Public Relations expressed "highest approval" of the "policy of arriving at understandings with constituent State medical societies," noted with pleasure the report of the rehabilitation medical work, and stated: "Any attempt to restore health and self-respect to American families and to preserve individuality, independence and security is to be commended."

Effect of program on nonmembers and on the general community.- One immediate outgrowth of the health program carried on in connection with rural rehabilitation was an experimental plan begun in 1942 by the FSA in cooperation with the USDA Interbureau Coordinating Committee on Post-War Programs. This plan was designed to provide medical care to all families in a given area without setting income limits. Six of those plans were operating in 1942 — two in Texas, and one each in Arkansas, Georgia, Mississippi, and Nebraska. In addition to the six experimental programs it should be mentioned that the Taos County, New Mexico Cooperative Health Association has been assisted by FSA grant funds. 24/ Prepayments were set at not more than 6 percent of the annual

23/ American Medical Association, Medical Service Plans, A report prepared by the Bureau of Medical Economics, Chicago, 1943, 72 pp.
24/ Studies of these health associations made by the Bur. of Agr. Economics are reported upon in the following: James E. Montgomery, Newton County, Mississippi, Agricultural Health Association, Washington, Aug. 1944; T. Wilson Longmore and Theo L. Vaughan, Taos County, New Mexico, Cooperative Health Association, 1942-43, Little Rock, Ark. Sept. 1944; also The Experimental Health Program of the United States Department of Agriculture. A study made for the subcommittee on wartime Health and Education of the Committee on Education and Labor, United States Senate, pursuant to S. Res. 74 (78th Congress) and S. Res. 62 (79th Congress).

income of each participating family, the maximum prepayment being from $50 to $60. Government subsidies were used to make up the difference between the 6 percent and the above amounts.

Evaluation

Impact of the war has made difficult the evaluation of the program by accentuating weaknesses that under a more normal condition might have been remedied in time. As it is, remarkable progress has been made in developing methods and procedures for provinding low-income farmers with medical, dental, and hospital care, within the framework of traditional patient-professional relationships. Failure of some units was to be expected on an experimental approach. The gains have been in focusing attention on the significance of the health of farm families for their economic and social well-being, and on society's stake in their health. and in pointing the way to meeting the problem of improving and protecting health.

(1) Coverage.- Specific benefits in the way of medical care have been given to a considerable section of the farm population. No doubt the quality and quantity of medical care has been increased for the low-income group participating. Farmers say they have a feeling of security under prepayment plans that they do not have under the customary way of paying for medical care. People like the programs as attested to by the rapid increase in number of units and persons covered. Professional cooperators in increasing numbers have come to regard the health services with favor. It must be admitted, however, that with membership in group-health plans depending upon voluntary participation, too small a percentage of potential members actually join in the plans.

(2) Freedom.- The health service program maintains customary ways of distributing medical services in most instances. It retains two basic elements — freedom on the part of the people to go to the doctor or hospital that they choose by individual or by group action, and freedom on the part of physicians and dentists to exercise professional responsibilities and professional judgment.

(3) Unity.- The medical plans of FSA are divisive in that they include only families of low economic status who are engaged in farming. However, they extend the general levels of medical care in the community to segments usually less favored and thus contribute to unity.

(4) Area to be covered.- The usual organization of plans on a single-county basis affects the actuarial soundness of the plans because it limits the base. In general, the plans do not provide an area large enough, in terms of population and finances, to contain and support the essential or basic services.

(5) Local responsibility.- Substantial local responsibility is provided for by the association type of organization and in a more limited way in the trusteeship form. State and county medical societies control all professional policy and make voluntary agreements with the health units. In most instances members have not assumed as much responsibility in the management as seems desirable.

Local professional leaders, too, have not taken sufficient interest in supervision and standards of care.

(6) Supply of physicians.- It is generally accepted that the units have been partially instrumental in keeping doctors in the county but have not usually been able to attract more medical and dental personnel into the area. The war intervened to complicate the whole physician-patient and physician-population ratio.

(7) Preventive work.- These programs have stimulated among farm people more recognition of health needs and so have contributed to the general diffusion of knowledge on health. Counties have been stimulated to do something about health problems and additional support for public health work has been forthcoming.

(8) Paying for care.- Plans utilize the group prepayment method for distributing the costs of medical care among the families and thus ease the financial burdens of sickness.

(9) Paying the doctors.- Most of the plans retain the traditional fee-for-service basis of paying physicians, dentists, hospitals, and druggists. More experimentation with the other methods of reimbursing professional persons - capitation, salaried doctors, and dentists — seems to be indicated.

)10) Quality of care.- The tendency during war years has been to reduce the number of services and to limit full utilization of those available. There is little doubt, however, that the lower income groups of farmers are getting better care than before and getting it sooner. Hospital facilities are used at a higher rate of occupancy because of the programs.

Lessons Learned

In general, the farmers eligible for the health program appreciate the efforts in their behalf. They have learned that through group action and under the prepayment method of operation, they are able to get medical care when needed. However, they want, and many are willing to pay for, more adequate and complete care than they are getting. The emergency nature of the type, scope, amount, and period of service has caused the program to be regarded sometimes as a form of glorified relief service. Interested persons are generally agreed that the program should provide all of the essential services but there has been no clarification as to how low-income families would be able to finance such a program. It is important that the various types of health-service plans be integrated with the various community activities directed toward health education and protection, that is, such activities as those of the State and local health departments, nutrition councils, anti-tuberculosis societies, local Red Cross chapters, local units of the U. S. Public Health Service, maternal child-health and welfare agencies, Blue Cross and Blue Shield Plans, school officials, and others.

The voluntary nature of the plans tends to make a selection of the poorest risks from the actuarial point of view. 25/ This situation

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25/ McNamara and Mangus, op. cit., p. 26.

coupled with the fact that coverage is greatly limited to low-income families has made subsidy or inadequate payment of professional personnel necessary in many cases. The method of payment by proration, used in the majority of units, introduced a dilemma between good service and adequate payment. Thus, the more services that were given, the lower the percentage of payment for any one service. The sharp variations in payment under such a system often put stresses on relationships with professional groups.

Finally it has been apparent that circumstances at the time most of the health units were set up indicated urgency, and so FSA has never had personnel enough to secure the desired understanding and member participation. Therefore group recognition of needs has been slow in developing. Too many families still think of medical or dental care as an individual problem. Some generalized principles characteristic of successful cooperative health associations for rural rehabilitation families are as follows:

1. The basic policies of (a) free choice of a physician, (b) group prepayment, (c) family contributions based on average incomes, and (d) voluntary participation by borrowers, have been proved to be sound.

2. Understanding with State and local professional groups is a prerequisite to successful development of a medical, dental, or hospital-care association.

3. The more completely the members take part in planning and administering the association, and the more thoroughly they understand it, the more stable the membership.

4. The more complete the services, the better the chance of survival for a group.

5. The membership base of an association must be broad enough to "spread the risk" adequately. (For medical-care groups, 5,000 persons have been considered desirable.) 26/

6. The professional services rendered to members must be comparable with those rendered to paying patients who are nonmembers.

7. The health-association activities must be closely integrated with other aspects of the rehabilitation program.

Issues Involved in a Continuation or Expansion of the Program

Experience since 1936 in developing a group health program inescapably brought to the fore many object lessons in planning and developing group health. Certain questions have arisen. For example:

26/ Goldman, op. cit., p. 33

(1) Shall the program be continued on an emergency provision basis or shall it be expanded to include a more complete service? If expanded, should the families stand the added cost, or should there be a direct or indirect subsidy by some unit of Government? (2) How can groups be organized and administered so as to have enough members to spread the risk sufficiently? (3) Should the program be expanded to include in its membership all farm families or all low-income families? (4) Should some other provisions be made for the "bad risks" (chronically ill persons) who often eventually spell the death of a health unit? (5) Should rehabilitated families be continued in active membership in the health groups after leaving the RR program so as to prevent their falling back into dependency in the event of protracted sickness? (6) What steps can be taken to establish associations where medical associations persist in their refusal to cooperate? (7) Where group services are available, how can all eligible families be persuaded to participate? (8) Where adequate facilities are lacking, what steps can be taken to provide facilities so that members will have adequate services if an association is organized? (9) What is the individual's responsibility and what is the Government's responsibility in paying for health services? (10) What modifications in the traditional way of paying for medical care are demanded under any new program?

Environmental Sanitation

Along with the deficiencies in medical facilities available to borrowers, reports from supervisors indicated families were also handicapped by lack of sanitation facilities. This situation was a factor in numerous diseases such as typhoid fever, dysentery, malaria, and hookworm. Lack of ability to pay for such facilities, lack of health education, lack of skill in constructing facilities, and faulty tenure relations were all involved. As measures were adopted to cope with the problem, a group approach was developed, grant funds were used, cooperative relations were established with other agencies, and sanitary engineers were added to agency personnel.

Development.- 27/ In 1937, officials of Region V on their own initiative, began making grants of $10 to $30 to borrowers for the construction of sanitary privies. Some 8,900, distributed throughout the 4 States of the region, were built during 1937 and about 16,000 during 1938-39. Early in 1938, the sanitary-grant program in Region V was enlarged in 16 counties to include the protection of water supplies and the screening of houses.

Late in 1938, the director of Region III was authorized to make grants to standard borrowers in 21 southeast Missouri counties for sanitary privies in the cases where loans were not justified. The program was started in only 1 county by June 1939. Region IV was also authorized to start a sanitation program in 2 North Carolina counties late in 1938, and, early in 1939, to extend operations to 4

27/ Based upon Summary of Farm Security Administration Environmental Sanitation Program, Program Analysis Report No. 9, Farm Security Administration, May 16, 1940. Also see Annual Report Fiscal Year July 1, 1940-June 1, 1941 of Chief Medical Officer, pp. 185-221.

Tennessee and 2 Virginia counties. A limited program got under way in Region VI late in 1938.

Based upon this early experience, authorization was given all regions on September 6, 1939 to initiate a sanitary-grant program along the lines already tried out. Such grants were limited to $100 per farm during a single year and based upon need (see Chap. 9). Public health engineers were assigned to the regions during 1939-40 to supervise and direct the work. Previously there had been such personnel only at the national level to assist the program in its relation to standard borrowers.

Sanitary improvements were made in accordance with the recommendations of the State boards of health. Assistance of the county health departments was solicited for technical advice, field inspections, educational literature, and even supervision of construction of facilities. Until their termination, the Work Projects Administration furnished labor for the construction of the majority of the privies and the National Youth Administration made workshops and youth available to construct screen doors, screen windows, concrete well slabs, etc.

Facilities were financed through loans whenever possible but grants were frequently used for the procurement of materials. Work agreements came to be a condition of these, as of other grants. They were also used as a means of getting landlords to sign longer leases, to reduce rentals, etc. Beginning in 1939, the program was permitted to function through groups. Funds were frequently pooled and materials and necessary skilled labor were bargained and paid for on a group basis. Sometimes the supervisor served as trustee for the group's funds; in other cases an informal association was established. In later years, purchases were sometimes made through the local purchasing and marketing association.

The sanitary-grant program was scheduled to be stopped on June 30, 1942 because of the curtailment of grant funds but the fact that some funds had been committed but not expended permitted the activity to continue, though on a severely reduced scale through 1944.

Results.- By the end of June 1943 the environmental sanitation-grant program had reached 1,053 counties in 45 States. About 112,000 families of all categories had received $3,413,000 in grants, averaging about $30 each (table 64, Appendix). Nearly 62,000 privies had been built, water supplies for 32,000 families protected, and 49,000 homes screened (table 65, Appendix). As measured by amount of grants, number of families aided, and number of facilities constructed, the program was heavily concentrated in the Southern regions, particularly in V and VI. The data do not show separately the aid to standard borrowers. Emphasis came to be placed, about 1941, on using grant funds allocated for this purpose in special problem areas and for assisting what were known as "pre-standard" cases.

Reports from the counties indicate that the program had some effect in stimulating the provision of proper means of disposal of human waste, protection of water supplies against contamination, and screening of homes on farms not occupied by rehabilitation families, and in encouraging borrowers who were financially able to construct sanitary facilities, through a loan, if necessary.

Experience indicated that only a few families could be aided in a county at a time unless a full-time supervisor for this activity was available on the county staff, for in most areas help was needed in planning and supervising the construction. A principal problem was lack of trained personnel to inform county supervisors as to the scope of the program, the standards to be followed in making improvements, and ways and means of accomplishing corrective measures.

Rising prices of materials and the lack of some items as a result of defense activities hampered the program as early as 1941.

CHAPTER 14

DEBT ADJUSTMENT AND TENURE IMPROVEMENT*

In addition to credit and supervision, which were universally used tools in the standard loan rural rehabilitation program, and grants, neighborhood action groups, group services, cooperative associations and health services which were less widely used, there have been other tools and techniques. Among the most important of these other aids were debt adjustment and tenure improvement. They are considered together here partly because they were closely associated administratively.

Farm Debt Adjustment

The farm debt adjustment program is one of numerous governmental activities started in 1932 and 1933 to relieve the serious agricultural credit situation. It was a development parallel with the Reconstruction Finance Corporation, the Emergency Farm Mortgage Act, and the Farm Credit Administration. 1/ The general purpose of this program was to provide a means of bringing distressed farm debtors and their creditors together to discuss their mutual problems and arrive at adjustments that would prevent foreclosure, bankruptcies, and destitution. From October 1, 1933, when the program was instigated at the request of the President of the United States until August 31, 1945, at which time it was transferred to the Resettlement Administration, the work was carried on under the general supervision of the Farm Credit Administration.

Farm-debt adjustment did not originate in the Resettlement Administration or the Farm Security Administration but it was so closely related to rural rehabilitation that its transfer from FCA to RA was quite logical. Although generally giving preference to servicing low-income farmers and rehabilitation borrowers after 1935, the debt-adjustment program was available to all farmers, and to creditors as well as debtors, until June 30, 1943 when it was restricted to agency borrowers.

* Section on "Debt Adjustment" prepared by Olaf F. Larson and Donald C. Horton; section on "Tenure Improvement" prepared by Olaf F. Larson and Elco L. Greenshields, all of the Bur. of Agr. Economics.

1/ See E. C. Johnson, "Agricultural Credit," in Farmers in a Changing World, pp. 740-754.

This activity developed and was carried on during the period when the refinancing of agricultural indebtedness, downward adjustment of interest rates, and scale-downs of loans, were widely practiced. For example, more than 620,000 loans closed as land bank and/or Land Bank Commissioner loans from May 1, 1933 through December 31, 1940 had all or a part of the proceeds used for refinancing of indebtedness. Of this number, the FCA estimates that about 150,000, or one-fourth, involved debt reduction. These reductions aggregated more than $200,000,000 or about one-third of the original indebtedness before refinancing. 2/

Organization of farm-debt adjustment work.- Under the FCA the work was largely carried on through the influence, advice, and assistance of voluntary State and county farm-debt adjustment committees appointed by the Governors of the various States. The county committees usually were comprised of three members -- farmers and businessmen who represented creditor and debtor interests. In many States the State Emergency Relief Administrations cooperated by supplying full-time supervisory personnel to assist the committees and by providing funds to cover committee expenses.

When the work was transferred to the Resettlement Administration the voluntary committee set-up was continued. Members of these committees were not employees of the Administration nor responsible to it. They did work closely with the county rehabilitation supervisors. Committee members served without pay but some provision was made for the expenses incurred. This same general set-up continued under the FSA until 1943 with the exception that committee members were appointed by FSA. In 1943, the separate committees for debt adjustment were abolished and the functions transferred to the single county FSA committee appointed by FSA (see Chap. 4).

The RA had established a farm-debt adjustment section within the Rural Rehabilitation Division in the national office and provided for debt adjustment specialists in each of its regional, in most of the State, and in many of the district offices. At the county level, debt adjustment work has been carried on by the rural rehabilitation supervisor as a part of his regular program. In many cases the supervisor is able to make an adjustment without calling upon the committees.

Types of debt adjustment.- By definition, debt adjustment is "any agreement, compromise, or settlement between a farm debtor and his creditors which gives the debtor a reasonable opportunity to meet his debts and continue farming." 3/ Outright reduction of a debt has been one of the methods most frequently used but other methods include interest-rate reduction, extension of maturity of an obligation, securing a refinancing of the loan for the debtor, transfers of equity and new rental and contractual agreements, such as providing for lease of property to the debtor after foreclosure with an option to repurchase under terms giving a reasonable chance to recover the property.

2/ Donald C. Horton, Harold C. Larsen and Norman J. Wall, Farm-Mortgage Credit Facilities in the United States, Mis. Pub. No. 478, U. S. Dept. of Agr., 1942, p. 49
3/ FSA Instruction 733.1, October 25, 1938.

Relation to Rural Rehabilitation.- Although approximately one-third of the total cases adjusted from September 1, 1935 through June 30, 1941 were for nonagency families 4/ the tendency was to give preference to present or prospective agency borrowers. After the debt-adjustment needs of these and other low-income families were met the remaining time of debt-adjustment personnel was available to farmers who had higher incomes. This trend reached a climax on July 1, 1943 when services of FSA personnel became limited to borrowers, presumably because of reduction in funds for carrying on rehabilitation activities.

It has been the official policy of the FSA "to facilitate by impartial mediation the adjustment of excessive debts of farmers; to encourage and assist voluntary State and county FDA committees in their efforts to make such adjustments and to render FDA service without charge of any kind to the debtor or his creditor." 5/ The entire debt-adjustment program has as its purpose "to provide facilities for adjusting on a voluntary basis farmers' excessive debts to conform with their capacity to pay."

The general policy has been to require county supervisors to make the debt adjustments necessary to insure the soundness of the farm-management plan before recommending a standard RR loan. 6/ The principle involved is much the same as that followed in the reorganization of a business. If existing claims are not adjusted, a part of any new funds advanced to the borrower might accrue to present creditors rather than be available to increase the resources of the rehabilitation client.

The debts of a prospective borrower are deemed to be excessive when it is shown by the preparation of a sound farm-management plan that the client will not be able to meet his obligations as they mature and at the same time support his family on a basis consistent with acceptable standards in the community, continue farming operations as provided in the farm management plan, and repay the rural rehabilitation loan. Negatively stated, it has been the policy not to encourage or assist any person to avoid payment of his legitimate obligations that are within his ability to pay. Each debtor is expected to meet his obligations to the full limit of his ability, considering his resources and the demands upon his income occasioned by the need of providing a reasonable level of family living, protecting the family health, and making adjustments in farm business.

The policies indicate that social welfare as well as credit considerations are weighed when ascertaining the need for debt adjustment.

Results of the Debt Adjustment Program.- During the period of about 2 years' activity under the supervision of the Farm Credit Administration an incomplete tabulation shows the extent of adjustments were as follows: 7/

4/ Report of the Administrator of the Farm Security Administration, 1941, table 5, p. 42.
5/ FSA Instruction 733.1, October 25, 1938.
6/ Ibid.
7/ Donald C. Horton, "Long-Term Debts in the United States," Domestic Commerce Series No. 96, U. S. Dept. of Commerce, 1936, p. 125.

Number of applications received	82,383
Number cases adjusted	49,921
Indebtedness prior to adjustment	$254,851,282
Debt reduction	67,286,329
Percentage reduction	26.4

The above data tend to be conservative and do not take recognition of writing off of past-due interest and the scaling down of non-real estate debts.

Under RA and FSA, September 1, 1935 through June 30, 1943, a total of 187,272 individual farmers received debt adjustment services (table 14). An aggregate of more than one-half billion dollars in indebtedness was adjusted downward by over $109,000,000 or about 22 percent. For the average farmer the indebtedness of nearly $2,700 was reduced by $585, assuming all receiving services had some reductions. The peak number of cases adjusted was reached in 1941; then came a rapid tapering off, largely because of the improved economic conditions. The percentage reduction ranged from 14 to 35 percent. It was highest in 1943, although the number of cases then was less than one-third of the 1942 total. Except for 1943, the general trend has been for a decrease each year in the percentage of debts written off.

Table 14.- Farm-debt adjustment under the Resettlement Administration and Farm Security Administration September 1, 1935-June 30, 1943, by fiscal years 1936-1943 1/

Year	Number of farm debt adjustment cases adjusted	Amount of indebtedness prior to adjustment	Amount of reduction in indebtedness	Percentage reduction 4/
1936 2/	32,871	$ 98,791,725	$ 23,839,344	24
1937	26,816	95,825,674	25,127,614	26
1938	16,591	56,429,781	13,659,625	24
1939	24,770	77,294,264	16,478,862	21
1940	26,665	75,590,717	13,415,934	18
1941	35,303	65,603,535	10,892,815	17
1942	18,575	31,309,022	4,519,498	14
1943	5,681	4,358,143	1,544,085	35
Total 3/	187,272	505,202,861	109,477,777	22

1/ Source: Fiscal years 1936-42 from Hearings before the Select Committee of the House Committee on Agriculture to investigate the activities of the Farm Security Administration, House of Representatives, 78th Cong., First Sess., pursuant to H. Res. 119, part 3, p. 999. Data for 1943 from FSA Report No. 1, July 20, 1943, table 7-F.

2/ From September 1935 through June 30, 1936.

3/ Does not include 119 group cases that were adjusted whose total indebtedness before adjustment and not including the 1943 fiscal year amounted to $23,678,631 and whose reduction in indebtedness for the same period amounted to $15,643,337.

4/ Not all cases had debt reduction.

In addition to adjustments for individuals, 119 groups received services which resulted in reducing their indebtedness by 66 percent or nearly $16,000,000. Information for the 105 groups adjusted under RA and FSA to October 31, 1940 and including more than 15,000 individual farmers, showed these cases to be distributed as follows: 8/

Irrigation districts	34
Drainage districts	29
Levee and diking districts	8
Farmers' cooperatives	18
Growers' associations	3
Other groups	13

Complete data showing this break-down are not available for recent years.

The character of the debt adjustment accomplished through the local committees is shown by the following distribution of individual cases adjusted during the period September 1, 1935 to October 31, 1940: 9/

Debt reduction	81,894
Substantial interest-rate reduction	1,090
Extension	28,628
Combination of above methods	16,930
Other methods	6,558
Total cases adjusted	135,100

One benefit accruing to the general public grows out of the fact that $5,767,832 in taxes was caused to be paid in adjusting individual cases from September 1935 through June 1943.

In more than two-thirds of the adjustments for individuals through October 1940 new loans were made as shown by the following lender groups: 10/

Federal land banks	12,802
Land Bank Commissioner	4,793
Production credit associations	1,920
Farm Security Administration	67,731
Insurance companies	535
Local banks	3,225
Individuals	7,122
Others	2,876
Total	101,004

Information is not available to show the extent to which rural rehabilitation borrowers benefited by debt adjustment each year. However, among standard RR borrowers active in 1941 only 7 percent, or 1 in 14, had received debt reduction. 11/ This reduction averaged $433 for the 7 percent reporting but it is not known what percentage this was of the original debt.

8/ Horton, Larsen and Wall, op.cit., p. 52.
9/ Ibid., p. 50.
10/ Ibid., p. 51
11/ A Brief Summary of Farm Debt Adjustment Activities, Program analysis report No. 22, FSA., May 29, 1942.

The use of debt reduction as a rehabilitation technique apparently has varied widely among the different parts of the Nation (fig. 15). Wide variations in the number of debt-adjustment cases for contiguous counties are apparent from figure 15. However, the variation may reflect differences in the need for adjustment as well as differences in the adoption and use of this tool by rehabilitation supervisors. The 4 Southern regions with 59 percent of the total standard RR case load in 1941 reported only 34 percent of the debt reduction cases while the Great Plains Regions which included 10 percent of the total case load reported 31 percent of the debt reduction cases.

Not only did the use of debt reduction vary widely but the amount of reduction varied greatly from one area to another and from State to State. In the 4 Southern regions reductions averaged from $101 up to $267 in contrast with Regions I and VII, both of which exceeded $700. A large part of these differences in averages may simply reflect the area differences in the economic level of borrowers accepted on the rehabilitation program and in the proportion of cases involving substantial real estate debts.

There is some evidence that in some regions increased use was made of the debt-adjustment technique as the rehabilitation program developed. Data for a sample of borrowers in 5 regions from the BAE study shows that in 2 regions an increasing proportion each successive year had debts adjusted and in 2 others greater use was made of this practice in the second than in the first of the years. It is also known that virtually all of these adjustments took the form of debt reduction.

Although debt reduction is probably the most dramatic and drastic of the adjustment techniques, the trend was toward a decreasing use of this method until a marked reversal came in 1942-43. Approximately 2 out of every 3 of the cases adjusted through June 30, 1939 involved reduction, compared with one-half the cases from July 1, 1940 through June 30, 1942 (table 15). Perhaps the increase to three-fourths during 1942-43 reflects the bad situation of the comparatively few cases

Table 15.- Percentage of debt adjustment cases adjusted by debt reduction by fiscal years 1/

Year	Percent cases with debt reduction
1935-36	60
1936-37	58
1937-38	67
1938-39	67
1939-40	57
1940-41	51
1941-42	50
1942-43	75

1/ Source: A Brief Summary of Farm Debt Adjustment Activities, Program analysis report No. 22, FSA, May 29, 1942, except for 1942-43 which is from Monthly Report of FSA Activities, June 1943, table 7-F, p. 44.

NUMBER OF FARM FAMILIES AND FARMERS' ASSOCIATIONS OR ORGANIZATIONS WHOSE DEBT STRUCTURES HAVE BEEN READJUSTED AS A RESULT OF VOLUNTARY FARM DEBT ADJUSTMENT SERVICES OF THE FARM SECURITY ADMINISTRATION, SEPT. 1, 1935-DEC. 31, 1940

U. S. DEPARTMENT OF AGRICULTURE

NEG. 39085 FARM SECURITY ADMINISTRATION

serviced that year. This may also explain the higher-than-average percentage reduction of debt for that year. The lessened use of debt reduction came during a period of rising prices for farm land and produce. Farmers apparently felt less need for cutting down their debt load, and creditors were less inclined to make such adjustments as general economic conditions improved. Not only were better times accompanied by a decrease in the debt-reduction technique but the entire debt adjustment-program tended to taper off, and FSA shifted emphasis to tenure improvement as being the activity most needed during the war.

Cost of debt adjustment.- Cost figures are not available for the entire period of operation of this program, but the Resettlement Administration's first annual report in 1936 estimated this activity was costing $1,600,000 annually, of which nearly $1,100,000 was for salaries and travel expenses of the 254 full-time personnel and for procurement, while the balance of over $500,000 paid the expenses of 495 State and 12,519 county committeemen. From 1939 through 1942 costs averaged $1,748,000 annually with salaries and expenses for FSA personnel ranging from $1,400,000 to $1,800,000 and between $88,000 and $154,000 going annually to State and county committee members. Total expenditures during these 4 years were $6,990,599. During these years the equivalent of between 682 and 865 FSA personnel devoted full time to debt-adjustment activities. These latter figures, of course, include the estimated time of county supervisors devoted to this activity. 12/

Evaluation.- There are a number of additional facts one would like to know in attempting to evaluate the debt adjustment program as it has been conducted. For example, what has been the distribution of adjusted debts as between the various categories of private and public creditors? What has been the distribution of these debts as between real and personal property? 13/ Among rehabilitation families what

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12/ Hearings...Pursuant to H. Res. 119, part 3, p. 999.
13/ Some information bearing on the above points has been compiled in a special study relating to the State of Michigan. Data in the accompanying table referring to the period 1937-40, show the distribution of debts before adjustment, by type of creditor and by nature of the security. In this State more than one-half the real estate loans of farmers whose debts were adjusted was held by the Federal land bank and the Land Bank Commissioner and more than one-third was held by individuals and banks. Of the chattel-secured debt which amounted to about one-half of the real estate debt, merchants, banks, and individuals held about two-thirds of the total. These 3 types of lenders accounted for all of the unsecured debt. (See table below).

This same study for Michigan indicates that scale-downs averaged 15.7 percent and the percentage of all previous debt that was refinanced was 30.7. Banks accepted relatively heavy scale-downs (36.8 percent) and those accepted by individuals and merchants were above the average. Life insurance companies and federally sponsored credit institutions accepted very low scale-downs. A part of the difference probably is attributable to the kinds of security for loans held by different lenders. For all creditors, real estate loans were scaled down only 6.8 percent whereas chattel-secured loans were scaled down by 23.9 percent and unsecured loans by 37.9 percent. Even on real estate loans the percentages of scale-down for banks and for individuals were much higher than for other lenders. (Cont'd)

use was made of the debt adjustment technique after receiving the first loan? 14/ And what has been the precise effect of adjustment on the rehabilitation of borrowers.

R. W. Hudgens, Assistant Administrator of FSA, testified before a Congressional committee that any future program to continue FSA rehabilitation activities should incorporate as one phase "debt-adjustment services which might logically be made available to all farmers in need of debt adjustment." 15/

The basic questions with respect to farm-debt adjustment activity in relation to a rural rehabilitation program are largely the same questions to be asked about any program for the adjustment of farm debts. 16/ What is the proper scope of such a program? Should it embrace only a rearranging of the terms of outstanding loans so that a farmer will have a better chance to repay his full debt at the agreed interest rate or should it be regarded as including also a reduction in the total amount payable? The program used has followed the latter philosophy. As any reduction in the amount payable involves a loss to a creditor, the question as to whether or not the public owes any responsibility to the creditor must be raised. As the program has

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13/ (Cont'd)

Distribution of debts of farm families adjusted under the auspices of FSA in Michigan, by type of creditor holding the loans and type of security, 1937-40 1/

Type of creditor	Real estate secured debt	Chattel secured debt	Unsecured debt
	Percent	Percent	Percent
Not given	6.1	5.3	—
Banks	11.2	39.3	25.0
Insurance companies	4.0	—	—
Individuals 2/	24.1	14.7	37.6
Federal land bank and Land Bank Commissioner	51.2	.5	—
Production credit associations	—	6.5	—
Merchants 2/	—	23.1	37.4
Finance companies	—	3.2	—
Farm Security Administration	1.2	5.4	—
Other agencies	.9	1.3	—
Local tax levying units	1.4	.7	—
All creditors (percent)	100.0	100.0	100.0
All creditors (amount)	$ 956,527	$ 480,695	$ 205,897

1/ H. E. Larzelere. "Farm Debt Adjustment in Michigan Through the Farm Security Administration," The Quarterly Bulletin, Vol. 25, No. 1, Mich. Agr. Expt. Stat., Lansing, Michigan, Aug. 1942, pp. 47-65.
2/ Although the data did not reveal a specific class of creditors for the unsecured notes nor the unsecured accounts, most of these types of obligations have been assumed to be held by individuals or merchants respectively.

14/ Despite the policy that debts should be adjusted before approval is given for a loan a report for the period from May 1 through Dec. 31, 1941 indicated half of the debt-adjustment cases were old RR borrowers. How long this condition prevailed among the regions is not known.
15/ Hearings before the Select Committee, op.cit., part 1, p. 256.
16/ See Horton, Larsen, and Wall, op.cit., pp. 209-217.

operated, the creditor has borne the full cost of any reduction although it is recognized that changes in the purchasing power of the dollar may have been such that no real loss was sustained in some instances.

Debt adjustment is one of numerous programs that may be used to direct agricultural policy and promote a variety of agricultural objectives. As the program has functioned the objective has been to assist farmers to remain in agriculture and prevent foreclosure which might drive them out or reduce their tenure status. One influence of debt adjustment may be to maintain the status quo in the face of forces that are making for desirable long-run changes in the agriculture of an entire area. This problem must always be faced when farm families are assisted in dealing with their debts, for burdensome debts may be merely a consequence of longer run pressure making for necessary economic adjustments. A weakness of the individual case approach to debt adjustment, which nevertheless has many other decided advantages, is the danger that too little attention may be given to area-wide considerations that are often responsible for the debt difficulties of an individual farmer.

The extent to which standardized procedures may be used in the debt-adjustment technique is a legitimate question but special circumstances explain why different farmers have widely different debt experiences. The severity of the depression of the 1930's and the degree of recovery varied by areas and by types of farming. Bad weather and changes in market demand made it difficult for even reasonably competent farmers to meet their obligations. Human misfortunes and bad judgment must be recognized as contributing to a bad debt situation. The variety of causes for debt adjustment indicates that such a program does not lend itself to a high degree of standardization either through legislation or administrative edict. Primary reliance apparently must be placed on the individual case method of approach — the method that has been followed.

The problem of administrative organization and procedure must always be faced. As debt adjustment involves the need of a third party to act as a mediator the use of local committees has several advantages, one of which is to relieve the pressure upon the Federal Government to solve a problem that can be settled locally. Once an adjustment has been made according to the recommendations of a local group, the farmer whose debts have been adjusted is more likely to look to this same group for financial advice in the future. This provides a basis for a measure of continuing informal supervision by local people.

It is evident that a debt adjustment program has limitations as a tool for implementing rehabilitation. It cannot be used to benefit a large number or a large proportion of low-income farmers. It cannot be carried too far without the danger of creating attitudes among debtors which would be destructive of real advantages of the credit system, all of which would make creditors insist upon some form of public subsidy to spread the cost. It is not a substitute for good farm organization, adequate resources, and good management. In some cases debt adjustment might merely postpone the time when foreclosure would be necessary.

Debt adjustment, by its nature, is likely to emphasize alleviating an already bad debt situation rather than preventing the development of such a situation. It normally can be brought into operation only after the farm family's situation has deteriorated so much that rehabilitation is made more difficult. In a continuing rehabilitation program, it should be regarded as a tool to be used when preventive measures either are not available or are not adequate to deal with depression conditions.

It appears that to reap the full benefit of a program like this it must be carried on in cooperation with other measures that will assist in the rehabilitation of a farmer and his family. The guides for sound debt adjustment policy should be derived from those for the rehabilitation program as a whole. Debt adjustment implements rehabilitation when it is used with discretion and within its limitations. The extent of its use will vary from place to place and from time to time.

Tenure Improvement

About two out of every three standard loan borrowers have been tenants and owners have often had inadequate units or too heavy a debt load, or both. These facts have forced the consideration of improving the tenure security of both tenants and owners as another means of achieving rehabilitation objectives.

The general social situation of the 1930's was favorable to efforts directed at improving farm tenure. The growing loss of land ownership by operating farmers, the fact that tenants moved more from farm to farm than the owners did, and the comparatively disadvantaged situation of many tenants with respect to levels of living and social participation in their communities were revealed by Census reports and special studies which were the background for the recommendations of the President's Committee on Farm Tenancy, early in 1937. Initiation of the Tenant Purchase (later called Farm Ownership) program was a symbol of national support for owner-operated family farms and security for operators.

Debt adjustment, together with review of purchase contracts and mortgages, and the special real estate and farm and home improvement program (later merged with tenant purchase activities as a farm enlargement and development program) represented efforts by the rehabilitation agency to improve the tenure of standard borrowers who were owners. The land leasing associations and the improvement of rental tenure through promotion of (1) the use of written leases, (2) longer-term leases, and (3) better lease provisions, were efforts to improve the tenure arrangements of borrowers who were tenants.

In terms of development within FSA, and the increased emphasis given at the beginning of the war, tenure improvement has been closely associated with the farm-debt adjustment program.

Under FERA.- Tenure improvement was not a recognized part of the original rehabilitation program begun in 1934 through the State corporations operating with funds granted by the Federal Emergency Relief Administration.

Even so, the early program did grapple with the problem of insecure tenure and did accomplish a great deal in the way of helping clients maintain possession of their farms and in aiding other clients who were landless in finding farms on which they could be rehabilitated. The policies used by the State corporations of some of the Southern States in securing a hold on a piece of land for clients constituted an early awareness on part of farm relief officials of the basic need for tenure improvement.

The extent to which the several State rehabilitation corporations used funds for the payment of rent or took other measures to improve the tenure status of relief clients is not known. The policies with respect to making loans for rental payments, which in the final analysis meant that the rental payments of clients were guaranteed to their landlords, varied considerably from region to region. In Georgia, Texas, and Arkansas the practice of paying rent with rehabilitation funds was rather widespread. The corporations in these States leased the farms in the name of the corporations for cash and then subleased to the clients. This procedure probably led to many abuses, as the rent was guaranteed in advance by the corporation regardless of whether the client was successful in making a crop or in making payment of the rent called for in his sublease. Many failures at this time were attributed to the fixed cash-rent obligations of borrowers. It was asserted that families paying cash rent could not be successfully rehabilitated. Landlords would have to share the risk. Another of the unfortunate consequences of this early method of paying rent, at least in Georgia, was its tendency to become the accepted method in later years. Landlords who rented land to rehabilitation borrowers expected the Government to pay the rent if the client failed to do so. This attitude on the part of landlords has been a definite stumbling block to FSA efforts in sponsoring mutual responsibilities among tenant borrowers and their landlords.

Under the State corporations a larger number of destitute farmers were given help who were farther down the tenure ladder than in later years. Many laborers and sharecroppers were selected for rehabilitation loans and grants by the corporations.

Under RA.- When the rehabilitation program was transferred to the Resettlement Administration, it was continued without material change so far as tenure improvement was concerned. Tenure improvement was not made a conscious part of the program under the Resettlement Administration at least for the first year. Some laborers and sharecroppers were still selected for rehabilitation aid with the result that they obtained tenant status on farms. The improvement of tenure status for these clients, however, was only incidental to the main job as then conceived of furnishing credit, working out farm plans, and providing supervision in the execution of farm plans. None of the official policies or procedure statements carried anything in regard to the problem of tenure for rehabilitation clients. Unquestionably the tenure problem did come up with field workers and it is probable that in some areas positive steps were taken to aid clients in improving their tenure relationships.

Although tenure improvement did not become a definite part of the rehabilitation program until FSA took over, the experience which these prior agencies had in obtaining land for clients and in helping them to hang on to the land they had laid the basis for the more tangible endeavors undertaken in this respect under FSA. During these early years the rehabilitation organization was becoming aware that security of tenure was necessary for successful farm rehabilitation.

Under FSA.- Beginning about July 1, 1937, just before the establishment of FSA, plans were made for a Washington staff to devote full-time attention to problems of tenure among RR borrowers. Many RR officials, especially regional personnel, were convinced of the need for increasing the effectiveness of the work directed toward the improvement and tenure status of borrowers. The first official statement of this new staff appeared in Administration Order 130, dated December 18, 1937 dealing with the organization of the Washington RR Division. This order established a Tenure Improvement Section, which was delegated specific functions in carrying out tenure improvement for rehabilitation cases. No corollary organization was set up at the regional level. The Washington Tenure Improvement Section carried on its work through the regional farm-management specialists who were technically responsible to the Washington Farm Plan and Loan Section of the RR Division. This organization for tenure-improvement work continued until July 1, 1939.

On July 1, 1939 the Tenure Improvement Section was abolished and both the Washington and field activities with respect to tenure were carried out under the Farm and Loan Section. This section continued to direct the work until June 1941, at which time tenure improvement was attached to the Farm Debt Adjustment Section, and a new section called Farm Debt Adjustment and Tenure Improvement was organized. This consolidation was effected because tenure improvement was considered more closely allied to farm debt adjustment than to farm planning for several reasons. (1) Techniques for accomplishing tenure improvement are similar to those used in accomplishing debt adjustments — this was of administrative importance in training of personnel; (2) FSA personnel qualified to negotiate or arbitrate debt adjustments were also generally qualified to negotiate or arbitrate tenure adjustments; (3) in the matter of reporting accomplishments, certain accomplishments might be reported in either activity, for example, changing a 10-year real estate contract agreement to a 20-year agreement within the debtor's ability to repay would be a debt adjustment by "extension as well as a definite improvement in the debtor's tenure; (4) a high percentage of cases needing debt-adjustment assistance were those that also needed tenure-improvement assistance and vice versa; (5) established farm-debt adjustment committees that were experienced in negotiating differences between debtors and creditors could assume the added tenure-improvement duties without necessitating the appointment of another group of committeemen; (6) debt adjustments and tenure improvements complement each other. Where both are necessary neither will stand without the other. Another reason for the change was to provide personnel for tenure improvement who would have more time to devote to it. Farm-debt adjustment work was declining rapidly at this time as a result of improved income to farmers and the additional activities in tenure improvement could be absorbed.

More stress than ever was put on tenure improvement in 1941. Then the wartime emphasis in food production focused attention on faulty landlord-tenant relations as an obstacle to achieving national production goals and gave added impetus to such measures.

The tenure-improvement work was carried forward in an effective way until June 30, 1943. At that time, the general reduction of all FSA activities and the placing of special emphasis on war production loans under the RR program resulted in the virtual abandonment of a staff organization that had been devoting full-time attention to tenure improvement.

As implied, the same county committees that were responsible for the debt-adjustment program were charged with aiding the tenure-improvement work (see Chap. 4).

Policies.- The reasons for FSA's interest in the equitable and satisfactory tenure arrangements of tenants were (a) farm and home plans were developed on the assumption that the client would remain on the same farm for the period of the loan, commonly 5 years; (b) insecure or unsatisfactory arrangements might result in termination of tenure during the period of the loan and prevent or retard successful rehabilitation in accordance with the plans developed; and (c) insecure and unsatisfactory tenure contributed to the need of rehabilitation before acceptance of many families and might bring recurring need for help after rehabilitation seemed completed. 17/

General policy was to adopt whatever measures would provide for nondisturbance of client's farm and home operations at least during the period of rehabilitation. 18/ Definite tenure over the period of the loan through written leases with renewal or continuing clauses, requiring formal notification of termination by either party, was to be provided. Compensation features for tenant's unexhausted improvements and provisions for arbitration of differences between landlord and tenant were to be included in leases.

At the time of new or supplemental loans, supervisors were to inquire into the tenure situation. Beginning in 1938, new loans were not to be approved unless accompanied by a lease on an FSA or other approved form which included desired provisions. The effort was to get written leases, providing reasonable tenure through automatic renewal or for a fairly long term, such as 5 years; to have provision for garden and pasture so as to get increased production for home use; provide for repairs and improvements, sometimes through an advance of rental by the agency for this purpose; and to provide compensation to the tenant for improvements to the farm added at his own expense. Lease forms were developed and distributed. 19/ Loans for permanent improvements on a leased farm were conditional upon a written lease providing security of tenure or compensation provisions. 20/

17/ FSA Instruction 732.1, October 25, 1938.
18/ FSA Instruction 731.1, October 25, 1938.
19/ See The Flexible Farm Lease, Farm Security Administration; Landlord-Tenant Cooperation, Use of the Flexible Farm Lease, U. S. Dept. of Agr., Washington, 1940.
20/ FSA Instruction 732.1, October 25, 1938.

A drive was launched in the fall of 1941 to have ten model leases signed in each county which would meet the following objectives:

1. Make use of the compensation principle for the making of farm improvements;

2. Make provisions for soil conservation in the improvement practices and provide for compliance in current programs of the U.S.D.A., unless the rehabilitation of the family would suffer;

3. Provide repairs and improvements so that housing in accordance with minimum standards would be available to the family;

4. Provide for woodland management to bring income to both landlord and tenant;

5. Provide security of tenure in order to carry out the several objectives;

6. Provide for an understanding regarding proper financing to implement the improvements in tenure relationship;

7. Make provisions for a self-sufficiency program.

Beginning in the last half of 1942 emphasis was placed on obtaining leases for the war's duration, or 5 years, whichever was longer, and a special "war lease" form was introduced as a supplement to existing leases, or in the absence of an existing lease, or where a regular lease could not be obtained.

Results.- The reports of progress show that the measures to improve rental arrangements have resulted in obtaining written leases and provisions for garden and pasture for a high proportion of tenants, but they have been less successful in getting automatic renewal, long-term, compensation, and repairs and improvements provisions (see Chap. 16 for details). Emphasis has been shifted from the negative to the positive aspects of farm leases. In the South, where oral agreements were common, the written agreements have marked the establishment of a new relationship between landlord and tenant. Requiring a satisfactory lease has forced tenants to seek landlords who would agree to the desired type of lease.

The implications of a written agreement in improving the status of families not accustomed to such an arrangement has not been carefully appraised.

An observer of the experience in 5 Missouri counties says: "It was frequently necessary to re-negotiate rental terms and in many cases more reasonable terms were procured for the borrower. There was some tendency for unscrupulous agents or owners to ask more rent if they knew the individual applicant was likely to be a Farm Security Administration borrower. There is no doubt that Farm Security Administration influence did help tenants to get a more reasonable agreement

in spite of some inclination on the part of farm owners to inflate rent values." 21/

Problems were encountered in promoting the tenure improvement program. The matter of deciding upon equitable rates was faced. Landlord objections to provisions for dividing Government benefit payments with tenants were reported. Not uncommonly the lease was considered just "another form" which was a condition for the loan and was not read, nor taken seriously, by either landlord or tenant. In the same spirit, the lease might not be filled out completely by the supervisor or might not be required to be filled out completely. Supervisors often did not have time for complete discussion of terms with both parties to the lease or for its gradual development as an educational process. Basically, where the lease was a threat to landlord control, it might be disregarded by tacit agreement or through coercive measures. Or a tenant might choose to disregard the terms and the landlord might have little recourse. Formal provisions actually mean but little without understanding, good faith, and a will to perform by both landlord and tenant.

Without question, the customs with respect to rental arrangements which the tenure improvement program sought to encourage have wide support. 22/

21/ Harness, op. cit., p. 16.

22/ See, for example, North-Central Regional Committee on Land-Tenure Research, Improving Farm Tenure in the Midwest, Illinois Agr. Expt. Stat. Bul. No. 502, June 1944, pp. 158-159; N. C. Rochester, Successful Farm Tenancy Practices, Clemson Agricultural College, Circ. 189, Dec. 1940.

CHAPTER 15

SPECIAL PROGRAMS*

Under the FSA several special programs were instituted to cope with problems peculiar to a specific locality or to a special group or to test out new methods in a limited area. It was but natural that a forward-looking program coping with the totality of problems faced by farm families should encourage such developments. The basic rehabilitation idea of credit plus supervision itself grew from trial efforts in a few States. The work-grant procedure and the environmental-sanitation grant program are examples of tools developed on a trial basis and then diffused throughout the country by administrative channels.

Among special programs that were generally limited in geographic scope were the following: farm unit reorganization in the Southern Great Plains; an experimental farming project; the special Negro community program; the noncommercial experimental project; "special areas"; the Southeast Missouri project; the special real estate loan program; water facilities and cooperative programs with other agencies as in Greene County, Ga., and Coffee County, Ala., and on a national basis with WPA and the Federal Surplus Commodities Corporation.

Farm Unit Reorganization in the Southern Great Plains

During and following the severe drought of the thirties, a special rehabilitation program in the Southern Great Plains was developed to encourage the enlargement of farm units when desirable and to make fundamental adjustments in the system of farming. This was commonly known as the "unit reorganization program."

Early efforts at rehabilitation in the Southern Great Plains ran immediately into problems associated with cash-crop farming in a high-risk area — soil erosion, uneconomically small farm units, and unstable tenure. These problems were inter-related and on most farms the adjustments to achieve a more stable system of farming were contingent upon increases in the size of farm or increased stability of tenure, or both.

The conditions necessary to a sound program of soil conservation were similar; tenure secure enough to permit the restoration of the land and the development of a stable system of farming; farm units big enough so that a considerable part of the acreage could be kept in grass.

Fortunately, there were resources at hand to facilitate the adjustments. A considerable number of farmers had left the area during

* Sections on "Farm Unit Reorganization in the Southern Great Plains" and "Experimental Farming" prepared by Orlin J. Scoville, Bureau of Agricultural Economics; "The Special Negro Community" Program prepared by Giles A. Hubert, Fisk University; "Noncommercial Experimental Project" by Rachel Rowe Swiger, Bureau of Agricultural Economics, "Water Facilities" and "Use of Other Agencies" by Olaf F. Larson and Paul J. Jehlik, Bureau of Agricultural Economics, and remainder of chapter by Olaf F. Larson, Bureau of Agricultural Economics.

the drought, and there was a large acreage of idle and abandoned land.

An effective rehabilitation and soil-conservation program called for the following specifications.

1. A shift in type of farming from cash crops to diversified crops and livestock.

2. An increase in the size of farms to provide adequate incomes and permit diversified farming.

3. Security of tenure to permit plans to be laid for building a stable farm organization involving revegetation of certain areas; application of soil- and moisture-conserving practices; development of stock water, and fencing; leases for a considerable period of years, and rentals reasonable enough to permit land best suited to grass to be so used.

4. The rehabilitation of land through the construction of terraces, contour furrows, water-spreading devices, or through the time-consuming process of restoration to grass. Rehabilitation of the land involved technical guidance, specialized equipment, and certain materials, and could be accomplished only over a period of years.

5. The extension of credit for the development of such farm units, given for a period sufficiently long to permit the earning power of the farm to be built up through improved productivity of the land and the building up of a livestock herd. As a safety factor, the retention on the farm of a substantial part of production during the first years of operation as a feed reserve.

Developing a program.- To meet the special needs of this area, a joing program was developed in the regional offices of the Farm Security Administration and Soil Conservation Service, and the regional office of Land-Use Coordination, during the winter of 1937. The objective of the program and the function to be performed by each agency were promulgated in a Memorandum of Understanding signed by the 2 regional directors November 24, 1937. This document, together with a special authorization from the Secretary of Agriculture permitting the making of loans for a period of 10 years 1/, furnished the basis for development of the program. The text of the memorandum is given in Appendix D.

Other agencies were enlisted informally in the development of the program. For instance, full use was made of AAA practice payments to encourage desirable farm practices and benefits and services available under the Water Facilities Program were utilized to aid in the development of a dependable feed supply.

The unit reorganization program furnishes a stimulating example of the way in which the farm programs of different agencies can be

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1/ Letter from Secretary of Agriculture to the Administrator, Farm Security Administration, Sept. 15, 1937.

blended together by leadership in the field to meet a particular local situation with very little alteration in existing regulations. The fact that the regional headquarters of several units of the Department of Agriculture were then located in the same city 2/ and were assisted in the coordination of their activities by a resident representative of the Secretary of Agriculture must have been of great importance in the development of the program.

How the program worked.- The unit reorganization program was inaugurated early in 1938. The loans were made as a part of the regular rehabilitation program. The special features of unit reorganization loans included the efforts to build up the size of units, the longer terms of loans (the maximum being 10 years compared with 5 usual at that time in the regular rehabilitation program) and the cooperative development of farm plans with the Soil Conservation Service. Also certain activities which were a part of the general rehabilitation program were given greater emphasis in connection with unit reorganization loans. These included efforts to get long-term leases, to eliminate "subject to sale" clauses from leases whenever possible, to adjust rental and tax charges on grassland or land adapted to restoration to encourage its retention in such use, the improvement of land and buildings, and the adjustment and consolidation of debts.

Figure 16 illustrates changes made in one unit under this special program. The reorganization of this unit involved the addition of some pasture, the construction of an irrigation well, a trench silo, dairy barn, and poultry house. As a part of the plan, the pasture was contour-furrowed and fields were laid out on the contour. A new purchase contract was worked out in which payments were based upon the earning capacity of the farm. The total cost of all major adjustments was $608.

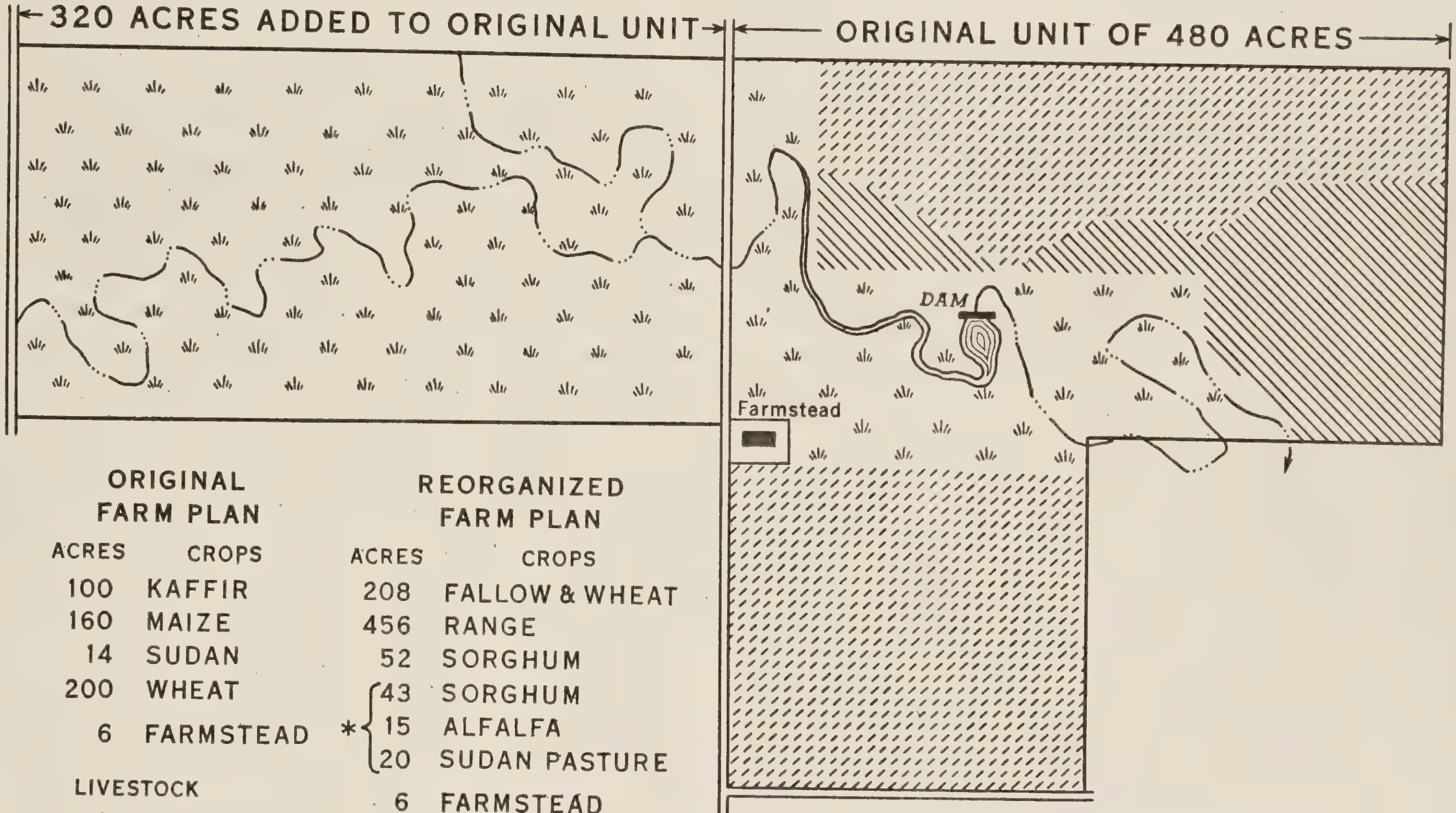
Efforts to enlarge farm units.- This objective was accomplished in several different ways. The operator might be able to obtain satisfactory leases on additional land by himself, or the FSA and SCS workers might know of available land and bring lessor and lessee together. Efforts were made to fit the reorganization program in with land-acquisition activities of the Department of Agriculture, so that lands bought by the Federal Government could be used to provide the additional grazing land needed to develop a stable farming system. Efforts were also made to obtain satisfactory leases of State school lands and tax-delinquent land.

Land leases were made between the client and the owner, the functions of SCS and FSA being to aid in the location of suitable land, to advise with respect to the conditions of the lease, and to advance funds for the payment of rentals.

No formal standards were established with respect to adequate size of farm units, but use was made of available economic studies. Also, the plan of conservation operations developed by the SCS, and the FSA farm and home plan furnished bases for judging the adequacy of

2/ Amarillo, Tex.

A REORGANIZED FARM UNIT IN FINNEY COUNTY, KANSAS



ORIGINAL FARM PLAN

ACRES	CROPS
100	KAFFIR
160	MAIZE
14	SUDAN
200	WHEAT
6	FARMSTEAD

LIVESTOCK

1	HORSE
1	COW
36	HENS

ESTIMATED NET ANNUAL AVERAGE INCOME $600

REORGANIZED FARM PLAN

ACRES	CROPS
208	FALLOW & WHEAT
456	RANGE
52	SORGHUM
* 43	SORGHUM
* 15	ALFALFA
* 20	SUDAN PASTURE
6	FARMSTEAD

LIVESTOCK

1	HORSE
15	COWS
200	HENS
3	SOWS

ESTIMATED NET ANNUAL AVERAGE INCOME $1,780

Roads
Range pasture
Cultivated dry land
Cultivated irrigated acreage

*IRRIGATED

DATA FROM F. S. A., REGION 12

U. S. DEPARTMENT OF AGRICULTURE

NEG 45026

BUREAU OF AGRICULTURAL ECONOMICS

individual farm units. It was not required that tracts of land be contiguous, or that any of the acreage, original or additional, be owned by the operator.

Among the items considered in enlarging a farm unit was the effect of the adjustment on other farms in the area. An effort was made to encourage the leasing of land by the farmers situated most advantageously with respect to it. However, reorganizations were made as farmers became interested and as land became available. There was no plan for reorganization on a systematic area or community-wide basis.

Improvement of tenure.- Measures to stabilize tenure included the encouragement of written leases, leases for as long a term of years as could be obtained, the elimination of "subject to sale" provisions from leases if possible, and efforts to secure low rentals which would make it economical to keep lands in grass that were not adapted to crop production.

The development of satisfactory tenure for reorganized units was exceedingly difficult. In many cases the reorganized unit would consist of tracts owned by as many as eight landlords, many of them living far from the Great Plains. Many owners of poor cropland were reluctant to have the land restored to grass hoping that with the return of favorable weather it could be rented or sold as cropland. Owners were seldom willing to omit a "subject to sale" provision from leases and frequently were unwilling to lease for a long term of years. In 1939 the average length of lease on unit reorganization farms in the different States ranged from 3 to 5 years. 3/ After some negotiation, the Federal Land Bank of Wichita agreed to make leases for as long as 5 years on its lands, 4/ but did not surrender the right to sell at any time. However, whenever possible, the Bank followed a policy of selling tracts that were in reorganized units to the operator on a contract basis.

It should be mentioned that in numerous cases reorganization did not involve the use of additional land, but merely more secure or equitable leases. In some cases farmers had been using idle land for grazing without a lease, and frequently the same land was grazed by other farmers. As a consequence of the drought many farms had been abandoned and the land left idle; fences were down or gone entirely, and such land was commonly used as free range. One purpose of the unit-reorganization program was to stabilize the tenure and use of such land, so that grazing could be controlled and conservation measures applied. It was estimated that in 1939, from 50 to 60 percent of the total acreage of land operated by farmers in the unit reorganization program was not under organized management before it was incorporated into a reorganized unit. 5/

Farm plans.- Because bold adjustments in farm organization were called for, and because of the need for the application of conservation

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3/ **Unit Reorganization**, Farm Security Administration, Region XII, Amarillo, Tex., Unpb. ms., 1939, p. 4.
4/ Lionel C. Holm, "What is Happening to 'Farms Tailored to Fit'", Land Policy Review, Oct. 1940, pp. 8-13.
5/ Ibid., p. 4.

practices for soil and moisture, it was felt that the usual farm and home plan would not be sufficient, and a formal agreement was entered into with the Soil Conservation Service whereby a complete plan of conservation operations was to be made for the reorganized unit, based upon conservation and range surveys. This plan included a 10-year agronomic, range, and land-use program. Where fairly elaborate structures such as fences, terraces, and stock ponds were needed, the specifications and dates of construction were stated. The task of improving farmstead facilities, constructing fences, and rehabilitating the land was thus broken down into segments — a part to be done each year. In this way the yearly work load and financial obligation were reduced to manageable proportions.

In addition to the plan of conservation operations, the usual FSA farm and home plan was prepared, usually covering a year's operations.

Improvement of land and building.- The unit reorganization program was begun in the area which 2 years before had been the very heart of the Dust Bowl. Most of the land was not so severely eroded as to preclude the growing of field crops when favorable weather returned, but the establishment of new stands of grass to permit the development of livestock farming was a complex problem. Moreover, the limited acreage of virgin sod was badly eroded and infested with weeds, requiring several years of favorable rainfall to restore its grazing capacity.

The farm buildings and water systems were inadequate in many cases for livestock farming.

As a part of the unit reorganization program, farmers were encouraged to cooperate with the ACP and the SCS in the use of range and cropland improvement practices for moisture and erosion control. Pastures were fenced, wells and stock ponds were constructed, and trench silos were dug.

The 10-year loan.- Because of the length of time required for the restoration of the productivity of the land, the accumulation of feed reserves, and for building up a livestock herd, the usual rehabilitation loan, extended for a period of 5 years, was inadequate. Special permission was obtained from the Secretary of Agriculture to make loans for terms up to 10 years. Some unit-reorganization loans were made for shorter periods. It was required that the client have security of tenure over most of his acreage for the period of the loan.

Extent of the program.- Most of the unit-reorganization loans have been made in southeastern Colorado, southwestern Kansas, the panhandles of Oklahoma and Texas, and the plains counties of northeastern New Mexico. Of the first 133 loans, 88 were in Colorado, 20 in Texas, 13 in New Mexico, and 6 each in Kansas and Oklahoma. As of June 30, 1940 approximately 400 such loans had been made. Few loans have been made in areas in which most of the land has been plowed for it is difficult to establish livestock units where there is little grassland. This condition restricted the development of the program in Kansas, particularly.

After the United States entered the war few unit reorganizations were attempted because of the high prices for livestock and competitive bidding for land. It is stated that "...the loan limitation of $2500 is not a sufficient amount of money to purchase enough livestock to make an economic unit." 6/

Authority was given for the development of the program in regions other than the Southern Great Plains, but very few such units have been developed. There is need for the program in many parts of the United States but the urgency is not so great, and the conditions necessary to reorganization, particularly the availability of land, have not been so favorable.

Accomplishments.- For the most part, efforts toward unit organization have not been directed to the enlargement of very small units. 7/ The original units have averaged about 1,200 acres, of which an average 820 acres was range pasture and 380 acres cropland. The reorganized units contain an average of 2,050 acres, of which about 1,620 acres is range land and 430 acres cropland.

By the end of 1939, farmers who had received unit-reorganization loans in 1938 and 1939 had 40 head of cattle per farm, compared with an average of 13 head before entering the program. Net worth had increased from $428 per farm to $1,134, and indebtedness, to FSA and other creditors, had increased from $2,195 to $2,885. This increase in indebtedness would be expected because of the capital outlays required for developing the farms, and the relatively low income that could be expected during the process of development. It should be noted that these figures refer to the first 2 years of the program and therefore include clients who had participated not more than 2 years and in many cases only 1 year.

These farmers had accumulated an average of 23 tons of roughage and had 412 acres of grass reserve that had not been pastured during 1939. Acreage in feed crops had increased from 69 acres per farm to 112 acres. Supplemental pasture increased from 5 acres to 20, and the acreage of hay, tame and native, from 6 to 15. An average of 172 acres which at one time had been used for crops was being restored to grass.

As a general policy, a minimum number of animal units were bought at the time a borrower entered the program to permit the family to "grow into" the livestock business. This served to keep down the size of individual loans but it also retarded the progress of some borrowers. In some cases it is reported that insufficient funds were advanced to permit the operator to buy enough livestock to utilize all the available feed so overhead costs on such units were high in relation to the income received. At the time these loans were being made, however, it appeared probable that the trend in cattle prices might turn downward within the next year or two, and a cautious policy seemed advisable.

6/ Letter of Ray E. Davis, Acting Regional Director, Region XII, Farm Security Administration, Oct. 27, 1943.

7/ Figures in this section are based upon a survey of 71 representative units made in 1939. See Holm, op. cit.

As of October 27, 1943, 80 percent of the unit-reorganization farmers in Texas and New Mexico had liquidated their indebtedness to the FSA 8/ and reported a net worth of from \$3,000 to \$6,000. In Colorado approximately 85 percent of the borrowers with unit-reorganization loans had repaid their loans in full. 9/

Comparable data are not available for other Plains States, but there is no reason to think that the results have been materially different. To some extent this very satisfactory rate of progress can be attributed to the favorable price situation during the period.

Unit reorganization and the farm-enlargement program.- The unit reorganization program should not be confused with the farm enlargement program, under which land owners may buy additional tracts in order to obtain adequate units. The farm enlargement program is now carried on with Farm Ownership Funds, involves the purchase of land rather than leasing, and is limited to persons who own the land they operate. In most cases farm enlargement does not involve extensive reorganization of present systems of farming.

Evaluation of the Unit Reorganization Program.- Without question, the unit reorganization program has benefited the individual farmers who have participated. Their farms have been enlarged to a point where the kind of farming can be practiced which will afford an income of sufficient size and stability to maintain an adequate level of living and permit the accumulation of reserves to tide the operator over all except the most severe periods of drought and depression.

The program has also benefited the economy of the area by promoting better land use and soil and moisture conservation. However, the program, as developed thus far, covers only a very small part of the acreage in need of such adjustment.

As a method of accomplishing land-use adjustment, the unit reorganization program has several attractive features. It can be quickly gotten under way for the necessary agencies and authorization are already in existence. It places a considerable part of the initiative with the farmers, which is conducive to hearty cooperation and low administrative overhead. The initial unit-reorganization loan has averaged something like three times the size of the usual rehabilitation loan 10/ but, as the reorganized unit comes into production, supplemental loans and grants should be considerably less than for the average rehabilitation case. The cost of the program and the size of loan per farm are relatively low, compared with tenant purchase.

The program has limitations which have retarded its rapid extension and have disrupted some units after they had been established. Probably the most serious problem has been to secure sufficient land

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8/ Letter of Ray E. Davis cited previously.
9/ Letter of F. F. Higbee Feb. 25, 1944.
10/ Unit reorganization loans made in 1938 averaged \$1,740 per farm. In the Southern Plains region, the median loan to new standard rural rehabilitation borrowers in 1938 was \$608 and 53 percent of such borrowers received from \$250 to \$749. Unit Reorganization, p. 6 and BAE Study of Standard Loan borrowers, 1936-39.

under satisfactory conditions of tenure. It has been accentuated by the attractive prices for farm products and favorable growing conditions of recent years which now tend to stimulate crop production in the Plains, even on small farms. As a result of the increasing activity of the land market, owners are reluctant to give long-time leases, and there is increasing danger that parts of a reorganized unit may be sold and the unit will disintegrate.

Increased stability might be given to the program if it were possible to buy the headquarters unit, at least in the range livestock areas, where such a purchase frequently would control the water supply for a considerable acreage of adjacent range land. In view of the increasing importance of "part owners" as a tenure group in many sections of the country, such an arrangement might have value elsewhere. But purchase of the headquarters unit would make it all the more important that stable leasing arrangements be obtained on the rest of the unit.

The difficulty of obtaining land at rentals low enough to permit use of the land for grazing has been mentioned. It seems that solution of this problem would materially advance the prospects for unit reorganization. This might involve the zoning of land to direct its use, equitable and reasonable real estate taxes based upon a land classification, and financial aid and other inducements to encourage revegetation of marginal cropland.

Efforts to set up reorganized units in the Plains are most likely to succeed in areas where there is a considerable acreage of grassland, because of the lower cost and greater dependability of the feed supply and the rapidity with which the shift to livestock farming can be effected. Even in such areas there is some question that a family-sized farm unit can be established which will withstand the impact of unusually long droughts.

It appears that the unit reorganization program could not be extended very far without the development of an over-all master plan of reorganization to prevent the enlargement of some units by the use of land that ought to be attached to some other unit because of its location. Such a master plan should take into account the use of Federal and State-owned lands where they are available, so that the distribution of grazing rights to such land could be made an integral part of the unit reorganization program.

It would be difficult to delineate the areas to which the unit reorganization program might be adapted. The principal farming regions in which there is a widespread need for the reorganization of crop farming into livestock or crop-livestock systems, are the Northern and Southern Great Plains. The enlargement of a substantial proportion of farm units, accompanied by various adjustments in types of farming, is needed in many parts of the Appalachians, in cotton areas of the Southeast and South Central States, and along the southern fringe of the Corn Belt. The problem is found to some extent in other areas.

In many of these areas additional land would not be readily available for the enlargement of units. In some areas the problem of restoration of the land might not be so difficult as in the Southern Plains, but drainage or clearing would be involved in many instances. There are probably few

areas outside the Great Plains where the unit reorganization program offers attractive opportunities for widespread application, but a similar program would be a useful device in all areas for assisting individual farmers, who have need for enlarging their farming operations and an opportunity to do so in terms of available resources.

Experimental Farming

Need for new ways of farming in low-income areas.- The very low farm incomes that prevail in many areas reflect the difficulties encountered by farmers in making a living under their present system of farming. Sometimes it appears that changes could be made in the farming system that would improve farm incomes in such areas. It is difficult to approximate in advance the results that will be obtained from the introduction of enterprises or practices that have not been thoroughly tested by farmers in an area. In low-income areas uncertainty with respect to the results is greater than in other areas, and, for the farm operator, the consequences of failure are more serious. It is obvious therefore that, in low-income areas, experimentation in new ways of farming should be carried out in a way that will protect farmers against the possibility of further reductions in their meager incomes.

Experimenting with actual farms.- In connection with the Special Areas Program of the Farm Security Administration, a procedure was developed by the FSA and the Bureau of Agricultural Economics for the purpose of experimenting with the organization of a few actual farms in low-income areas. Arrangements were made for the informal cooperation of the Forest Service and the Soil Conservation Service. Plans for the experimental program were worked out in 1941.

A number of farms, not to exceed 10, were to be selected for experimentation in each of a few Special Areas. These farms were to be the basis for an experiment in shifting to enterprises and practices that were new to the area, but that showed a prospect of increasing farm returns. The experimental changes in farm organization and practices were to be completed within 10 years.

It was specified that the farmers were to be owner-operated because this would assure stable tenure during the experiment and avoid the necessity of working out the farm adjustments with landlords. The farms selected were to be representative of those in the area. It was suggested that farm operators should be chosen who had shown different degrees of managerial success. An effort was to be made to select operators who would be representative of the area with respect to health, age, and family composition. Further, only those operators were to be selected who would understand the program and cooperate throughout the period of the experiment.

Cooperative agreements.- It was planned that the cooperating farmer would agree to:

1. Help in planning the reorganization.

2. Assist in revising the plans from time to time to meet changing conditions.

3. Follow the plans as they were set up.

4. Keep the necessary records and reports.

5. Advise with the farm-management supervisor with respect to any changes from the plan which he might want to make.

6. Devote his family labor and farm resources to the program.

The Farm Security Administration agreed to:

1. Finance the changes and shifts in farm organization and improvements, and provide the working capital on the basis of planned results (loans and necessary grants to be used on the basis of planned income and expenses).

2. Make a reaccounting each year and a final accounting at the end of the period to ascertain the amounts for which borrowers should be compensated, and to ascertain whether or not the planned results had left the farmer in better or worse shape from the standpoint of needed goods, services, and improvements than he would have been in without the planning, supervision, and financial assistance.

3. Compensate the farm operator each year for any losses caused by the shifts in farm economy under the terms of the experiment (compensation to be based upon the differences in earnings from the farm enterprise followed and the earnings from the farming system previously after taking into consideration inventory increases or decreases not due to changing prices).

4. Give adequate supervision and servicing to keep the borrower working close to the plan.

The Bureau of Agricultural Economics agreed to:

1. Assist in planning the farm reorganization, advise and assist in guiding the current farming operations of the individual farm, assist in keeping records, appraise and analyze each year the results of the year's farming operations, and make a report to the FSA of the progress of the experiment.

2. Make pertinent analysis of the operating and financing factors involved after sufficient data had accumulated.

3. Furnish supplemental budget forms, accounting records, and other needed record material. (The FSA farm and home record book was to be used as a basis for the records kept by the family.)

4. Make arrangements for special technical assistance to be rendered by State colleges, experiment stations, and departmental agencies.

The Forest Service agreed, informally, to cooperate on farms that had woodland by furnishing a supplement to the record book covering forest inventory and forest receipts and, where a forester was available to make an inventory of the timber resources on the experimental farms and to mark timber for cutting.

Progress in Heard County, Georgia.- In the fall of 1941 plans were laid for setting up the experimental program in several Special Areas, but after the attack on Pearl Harbor the program was suspended in all but one area - Heard County, Georgia. In that county the Farm Security Administration, the Bureau of Agricultural Economics, the Forest Service, and the Soil Conservation Service worked together in formulating the experimental plans. In contacts with the farmers in the program, the work of each participating agency was developed around a single farm plan.

Important features of the plans for all 10 farms included introduction of livestock enterprises as major sources of farm income, with a reduction of cotton and the substitution of feed crops -- such as small grains, lespedeza, and kudzu -- for much of the corn and such annual hay crops as cowpeas and soybeans. Considering the major sources of farm income the plans fell into three groups:

1. Dairying was a main enterprise in six plans, which differed in the combination of other enterprises. Three of these plans included cotton. In those plans not including cotton, poultry was the secondary source of income.

2. Two plans were built around beef cattle as the primary source of income, with other enterprises mainly for feed, and for food for home use.

3. The other plans were based upon cash income from cotton and poultry; one of these included sweetpotatoes as a major enterprise.

The experimental plans were to be put into effect as rapidly as home production of breeding stock and establishment of permanent and temporary pastures would permit.

In the past, management of woodlands on the selected farms has been haphazard, the woodlands needed building up over a period of years in order to reach full productivity. Farm woodland plans provided for certain improved practices:

1. Exclusion of fire from all woodland areas.

2. Prevention of overgrazing.

3. Getting fuelwood, fence posts, and other timbers for farm use, from improvement cutting and thinnings as far as possible.

4. Removal of undesirable trees to improve stands even though timber cut cannot be used or sold.

5. Cutting of mature trees for sale or use.

6. Planting limited areas that are best adapted to timber production but that will not reseed naturally.

At the end of 1944, six of the original ten farmers were still cooperating in the program.

One cooperator left the program after the first year because he felt there must be some "catch" to it, he said. He could not understand why the Government would be willing to finance losses that might be incurred in changing his system of farming. In other words, he failed to grasp the real purpose of the program. Another farmer was dropped after the first year because he did not put the 1942 farm plan into effect. In this one case the farmer was a share-tenant who intended to buy the farm he was operating but the purchase was not carried out and his continued status as a tenant may have made him indifferent to the program. One farmer dropped out in 1943 when he got a war job in a cotton mill. One of the most promising of the cooperators was forced to discontinue farming because of serious illness.

Of the six farmers cooperating at the end of 1944, four had made good progress toward accomplishing the planned adjustments in their farming systems. One had made fair progress, the chance to work in a war plant having interfered with making extensive adjustments on the farm. The only colored farmer on the program made the least progress toward the development of the program planned for his farm but to some extent this was due to a decision to expand his cotton enterprise to take advantage of favorable wartime prices and it has been profitable for him to do so. His family farm earnings have been among the highest, and his farm business has shown the greatest increase in net worth among the cooperators.

These six farmers, taken together, have made practically no reduction in cotton acreage although the experimental plan called for an ultimate reduction to 24 acres from the 40 acres planted in 1941. The plans called for a decrease in corn acreage from 115 acres in 1941 to 45 acreas; the acreage planted to corn in 1944 was 69. Small grains were to be increased from 21 acres in 1941 to 66 acres; in 1944, 29 acres were planted. Lespedeza acreage has been expanded from 13 acres in 1941 to 30 acres in 1944; the plans call for an ultimate lespedeza acreage of 64. The most significant adjustment in land use has been the establishment of kudzu. There was none of this crop on these farms in 1941 but at the end of 1944 75 acres had been established out of a planned acreage of 125.

Livestock adjustments have progressed more slowly. On the two farms that were to develop a beef enterprise there was 6 beef cows at the end of 1944. The plans call for an ultimate total of 40. Milk cows on all 6 farms have been increased from 12 to 16, about one-third of the increase needed to fulfill the plans. The number of hens and pullets has been expanded from 272 to 507. The planned total is 660. Production has increased proportionately although the plans called for an increase in eggs produced per hen.

The relatively small increases in livestock numbers are largely explained by shortages of feed and pasture. These factors have also influenced livestock production although inexperience with livestock has been partly responsible.

Increases in crop yields, except cotton, have not been as large as was hoped for and have contributed to the shortage of feed. Favorable weather and increased use of fertilizer and insecticides, have brought marked increases in yields of cotton on nearly all farms. Sweetpotato yields in 1944 were 20 percent less than in 1941. Corn yields in 1944 were about 20 percent higher than in 1941 although the application of fertilizer per acre had been more than doubled and was approximately the rate recommended in the plans. The plans indicate that eventually corn yields on these farms should be about three times the 1941 yields. Progress made thus far raises a question as to the accuracy of the yield estimates used in making the plans.

Three years of experience in the experimental farming program, with due allowance for the influence of the war on the timing of desirable adjustments, indicates three things. First, a sound plan must be developed that farmers will understand and believe in. Second, the farmer must be interested in cooperating with other people in improving the management of his farm. Third, little can be accomplished if the farmer is confronted by such barriers as insecure tenure, poor health, or lack of managerial ability. When these three conditions have been favorable, progress has been good. Where these conditions have not been favorable, effective cooperation has not been secured, and cash inducements even greater than those made available under the program would not have changed the situation.

The Special Negro Community Program

In close connection with the Special Areas program of the FSA, a program designed to strengthen and develop certain Negro farming neighborhoods was begun in 1939. These were neighborhoods selected in parts of the South (one in each of eleven States) which were typical of many other neighborhoods where there was a firm nucleus of farms owned and operated by Negroes and at least some beginnings of community solidarity and community spirit.

The basic philosophy of this program was expressed in a memorandum submitted by Giles A. Hubert of the Rural Rehabilitation Division in July 1939. Excerpts from this memorandum follow:

"It is a fundamental premise that our governing objective is to contribute to the development of a vital and progressive yeomanry for southern agriculture. This granted, it is suggested that just as individuals can best develop in securely situated and stable families, so these families can live a fuller life and reach a higher general status of achievement when working together in communities so organized that they are served by effective economic and social institutions which are controlled in the interest of the people.

"We are surely interested in the kind of farm a man has -- his crops, his livestock, his house and his barns. A well chosen, comfortable and efficiently operated farm is a basic requirement to good living

in rural areas. But, after all, the reason for desiring good corn, cotton, peas, vegetables, cattle and milk is that we are basically interested in there being good people. We can select good farms, we can build good houses and barns, we can teach good farm and home plans and prevail upon people to keep records; these are all good — the first steps. But these in turn must be fixed and perpetuated in personalities, in community and group traditions or else our efforts will die away when close supervision can be no longer provided or with the passing of the first generation. If out of all our work there does not come a sort of group solidarity supported by a bond of loyalities, and if out of it all there does not arise a leadership which can take over and carry on where our 'management' leaves off, our new white houses are destined to become tombstones for a great idea that somebody had and a grand humanitarian effort that somebody made.

"The Negro rural population has generally been a tenant and laboring population. The status of tenancy in the South has usually meant a status of insecurity. The instability of the tenant population is well known The plantation has been the only unifying element in this situation with its paternalistic dominance over the population. Where there is no plantation or where the plantation is disintegrating there has been none....One of the saddest of pictures is that of the school building situated alone in the open field or the church unsurrounded at the crossroads. The setting is as though they were something apart and imposed upon the life rather than an integral part of it. Small wonder that after the school building is five years old it is beginning to fall apart, steps are falling down, window panes out, paint washed off. The teacher lives in town, goes out to his job as a worker to the factory or as a clerk to the office building. He doesn't feel himself a member of a community which he is trying to lead largely because there is no community....

"Negro ownership is small relative to the mass of tenancy. Much of this ownership is scattered over the countryside dominated by tenancy and its masters. They are truly the lonesome ones. Their very existence is opposed to the system by which they are surrounded. The church they attend is dominated by a shifting and unstable tenant population. Their schools... They must be financed by the same system which is geared to finance tenancy. They must market their products through the channels dominated by the owners of tenant farms and plantations... Usually under the protection of some landlord friend, they succumb when this protection disappears. Their battle is a hopeless one. They, also, know nothing of free community life.

"But here and there, there have developed a number of natural Negro neighborhoods and communities. Representing a small minority of Negro farmers as a whole, these little labs of ownership represent the pioneer effort among Negroes at developing for themselves a community in the life of which they could have full participation and a measure of control over their own affairs. Some of these have become large enough to develop and support a town (Mound Bayou, Boley, etc.). These have been much publicized and have attracted much attention. We are more interested here in the much more numerous but smaller and less well known rural neighborhoods scattered here and there throughout the South. These neighborhoods have never been enumerated. Only a few

of them have been studied. But they are well known locally and recognized by names although they seldom appear on the general maps.

"It is proposed that a serious effort be made to locate those existing Negro neighborhoods and communities which have development possibilities so far as the people, the land, the present State of integration is concerned. Once a neighborhood is selected for improvement the local State and county committees would be prevailed upon to concentrate a sizeable number of good TP and Rehabilitation clients in the community. Efforts would be made to refinance as many of the present farm owners as is possible in the neighborhood. These steps would lead to financial stability.

"There would be employed a Negro County Rehabilitation and Tenant Purchase Supervisor who would serve the general area, but who would have his headquarters or rather live in the selected Negro neighborhood. He should make himself a part of the community and furnish it with all the leadership and guidance which his time permits. He could lead in the development of community cooperative enterprise. Through his Tenant Purchase and Rehabilitation clients he could demonstrate better farming methods and urge a coordinated production program for the community.

"Infiltration of this kind would be much more effective than where no community organization is contemplated. Where there are small groupings of infiltration clients such as I noticed in parts of Region VI, these should be enlarged and integrated into functional neighborhoods. They should have much the same set-up as discussed above."

As a result of this memorandum and the discussion of it, a program was drawn up and submitted to the regions. There was to be no change in the usual county office set-up in any county where a neighborhood was selected for development. In most cases a Negro assistant FSA supervisor and a home supervisor were added to the county staff and assigned to the neighborhood. The case load of the new team was usually located in the community and its immediate environments.

Efforts were made to develop several good Tenant Purchase farms in the neighborhood and FSA assistance was offered to all families who needed it. Community and cooperative services were encouraged and steps were taken to develop a general neighborhood or community organization. The work in the neighborhood was coordinated with the general county program.

In Region VI, the special community supervisors were made associate county supervisors with more or less complete office set-ups, and were placed under the direct supervision of the district supervisor. The purpose of this move was to provide for more independence in the development of the community program.

The following communities were selected for development and work begun: x<u>Center Cross</u>, Essex County, Va. Three neighborhoods in Caswell County, N.C.; x<u>Denmark</u>, Madison County, Tenn.; x<u>Sheldon</u>, Beaufort County, S.C.; x<u>Old Springfield</u>, Talliaferro County, Ga.; <u>Camp Hill</u>, Tallapoosa County, Ala.; x<u>Fessenden</u>, Marion County, Fla.; <u>St. Thomas</u>, Hinds County, Miss.; x<u>Silver Ridge</u>, Sevier County, Ark.; <u>Shady Grove</u>, Nachitoches Parish, La.; <u>Taft and Cane Creek</u>, Muskogee County, Okla.

In those neighborhoods marked (x) the program was still in progress at the end of 1943. The others had dropped out for several reasons including poor selection of the neighborhood as to its nature and as to basic soil resources; local antagonism and opposition; selection of incompetent personnel. In case of the Sheldon community in Beaufort county, the program was expanded to cover other neighborhoods and emphasis was transferred to the St. Helena Island community in the same county.

With the development of the neighborhood action program, three of these communities were selected for special emphasis — Denmark, Tenn., St. Helena Island, S.C., and Fessenden, Fla. Neighborhood action groups were organized and the general community organization was strengthened. In St. Helena and Fessenden neighborhood action was directed mainly along lines of local community services and the assembly, grading, packing, and marketing of truck products of these communities.

In Denmark the action stimulated such community services as a cooperative jack and mule breeding group and a cream and butter pickup service for the whole community. This was developed in connection with a general increase and improvement in production of home livestock. At this time the St. Helena group had made definite plans toward development of group ownership of fishing boats and equipment including localized refrigeration equipment.

A study of progress made in the Denmark community (which includes four large neighborhoods) through 1943 showed the following improvement in the economic situation of the community:

1. Nineteen families had been stabilized under the Tenant Purchase program.

2. Seven were tenant FSA borrowers formerly connected with the Haywood Farms project.

3. Forty-one tenants and fifteen farm owners had been assisted by RR loans.

4. In addition to Tenant Purchase borrowers and Project farm units, 22 new homes had been built, 9 houses repaired, 7 new barns constructed. Much of this improvement had been made without or with only partial financial assistance from FSA. Cooperation of landlords in improving tenant facilities had been part of the program.

5. The net worth (from the beginning of 1940 to end of 1943) of tenant purchase borrowers increased 279 percent, of standard loan owners 94 percent, and of standard loan tenants, 44 percent.

6. For all borrowers the value of workstock and equipment increased 153 percent and the value of productive livestock increased 142 percent for the same period. On 28 farms studied the number of milk cows increased from 58 to 91.

The number of brood sows increased from 21 to 46. The number of hens increased from 665 to 1,239. So, the increase in value of livestock was not due mostly to increase in the price level.

In addition to this, one new church had been built and six had been given major repairs. A new blacksmith shop had been established by the son of a tenant purchase borrower. A new community grocery and general supply store had been built and expanded by one of the community ministers. Through the cooperation of county officials and other influences one new high school and two new grammar schools had been constructed and three others repaired. (The county turned over one of the older school buildings to FSA for use as office and community buildings.) A community bus service for transportation to school and to town had been put in operation.

Progress in others of the selected communities and neighborhoods has not been quite so dramatic as this but Denmark is rather typical of the kind of activities and improvements in other communities. Some have gone farther in some lines. For instance, Center Cross in Virginia developed a strong purchasing and marketing association and Silver Ridge in Arkansas took leadership in soil conservation and a large part in the Sevier County purchasing and marketing association.

The progress made in these communities substantiates the fundamental nature of the principles upon which the program was based. Many mistakes were made in selections of communities and administration of the program. An adequate method of reporting the progress made in these communities and neighborhoods never was developed nor an effective method of follow up from the Washington level, through the regional and State levels, down to the district and county. If this had been done, many errors in carrying out the original ideas would have been avoided. Changes in local, district and State personnel made adequate development of the program impossible in many places without constant and planned follow-through in administration.

The successful communities with few exceptions were those where the regional and State directors (and in some cases the district supervisors) were thoroughly sold on the idea at the beginning and remained in the same positions long enough to see the program well under way. This was surely true of Center Cross in Virginia, Denmark in Tennessee and the program in Beaufort County, South Carolina. In some cases a strong special community supervisor did a fine job in spite of difficulties.

The experiment showed the need of training the type of leadership needed for rural community development programs. Competence in farm management does not necessarily mean a good community leader. Attention needs also to be given to training of leadership among the citizens -- leadership which becomes a permanent factor in community life.

With the break-down of the plantation system in Southern agriculture, Negro farmers and small white farmers are thrown into direct competition with each other and with other farmers of the world. The changing market demands and new agricultural techniques, including mechanization, mean that these farmers have to make rapid adjustments.

Negro farmers face a problem of economic survival in an increasingly competitive world. They must learn to live and work together in groups wherein they can develop the efficiency necessary to compete and the moral fiber to withstand.

Such lines of development as indicated by the experience with these special communities appears to point the way for many.

Noncommercial Experimental Project

By the end of the 1930's many poor rural families were being reached and helped by the Farm Security Administration but there was still a group at the very bottom of the economic ladder that were too poor to qualify for help under the standard loan program.

The depressed circumstances of this group in most instances were not of recent origin. They had gone through disappointment and failure repeatedly and they lacked the stimulus of taking part in the affairs of their community and country. Their hope of attaining a better way of life had almost disappeared. They needed much more than the usual kind of financial assistance and guidance. Before they could make effective use of this kind of aid, some confidence in their own ability to help themselves had to be created or restored. They needed sympathetic understanding, help in identifying their complex problems and help in finding ways and means to solve some of these problems made possible.

To develop ways and means of helping such families toward self-support an experiment was begun in 1938 under the impetus of a committee in the Department of Agriculture. The FSA was assigned major responsibility for the experiment. Relatively intensive supervision with a wide latitude for constructive imagination and experimentation were to be provided through well-selected FSA personnel working with limited case-loads. Supervisors were to have wide discretion in the use of grant and loan funds when working with the families. Mental or physical disabilities so serious as to preclude rehabilitation were to be the only reason for not admitting into the experiment a needy family who was below the level of the standard program, but willing to cooperate.

In small areas of 10 widely dispersed counties throughout the United States 606 families took part in the experiment. 11/ Most of the

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11/ The characteristics of the families are described in Rachel Rowe Swiger and Conrad Taeuber, Ill Fed, Ill Clothed, Ill Housed — Five Hundred Families in Need of Help, Bur. Agr. Econ. and Farm Sec. Adm. cooperating, April 1942. The program and its results are summarized in Rachel Rowe Swiger and Olaf F. Larson, Climbing Toward Security, Bur. Agr. Econ., Nov. 1944. Other reports based upon this experiment include the following issued by the Bur. Agr. Econ. and the Farm Sec. Adm. cooperating. Conrad Taeuber and Rachel Rowe, Five Hundred Families Rehabilitate Themselves, Feb. 1941. Rachel Rowe Swiger and Conrad Taeuber, Solving Problems Through Cooperation, March 1942, and Rachel Rowe Swiger and Olaf F. Larson, Yesterday, Today, and Tomorrow - Five Hundred Low-Income Farm Families in Wartime, March 1943. Rachel Rowe Swiger and Conrad Taeuber, They Too, Produce for Victory, March 1942. For an analysis of this program in one county see Charles Loomis and Glen Grisham, "The New Mexican Experiment in Village Rehabilitation," Applied Anthropology, vol. II, no. 3 (June 1943), pp. 13-37.

families were white but some were Negro. Some were Spanish-Americans. A majority of the families had received some form of public relief. Half were farm owners; others were tenants or sharecroppers. Work experience had been predominantly in agriculture but frequently other work had been done. Farms were small, livestock and equipment were poor, and incomes were restricted. Levels of living were extremely low and most of the families were undernourished and handicapped by physical defects.

Implementing rehabilitation.- The ultimate goal of the program was to develop in each family the fullest practicable capacity for self-maintenance and social well-being. To facilitate progress toward this goal, attention was first focused on work involving the improvement of the depressed economic, health, social, and emotional conditions prevalent among the families at the beginning of the program.

Work tools.- The same tools and facilities were available to families in the experimental program as to those who were receiving help under the FSA standard loan program but these tools were used differently.

Supervision.- There was greater opportunity for more intensive supervision in the experimental program because of the smaller caseloads and the fact that the families were nearer together. As a rule, in the experimental program 1 farm and 1 Home Management supervisor was assigned to work with a group of 50 families, whereas, in the standard loan program, 1 farm and 1 home supervisor usually serviced from 100 to 300 families or more. Families in the standard program are scattered throughout an entire county or a larger area whereas those receiving aid under the experimental program were usually concentrated in a relatively small area within a county.

Loans and grants.- Supervisors were to have more leeway in the use of grant and loan funds than under the standard program. At first, no administrative procedure was issued regarding the use of loans and grants as it was believed to do so would lessen, if not destroy, the experimental aspect. Later, the grants were limited to $300 per family or $50 per member, whichever was less, during any year. 12/

Work techniques.- The outstanding fact in the initial development of plans with the project applicants was their lack of knowledge as to exactly what they wanted, or what they needed to change in their present condition. They knew their own efforts had failed but they did not know what had brought about their failure.

The information written on each family's application was analyzed by the supervisor to find clues to the family's problems and needs. After this was done a home visit was made by the farm and home supervisors. The family's problems were discussed in detail with the applicant, his wife, and any other member of the family who would be involved in carrying out farm-home plans. The program was explained thoroughly, simply, and in detail, including the services and financial assistance available to the families. Likewise, the role of the family was plainly defined. Care was taken not to lead the family to expect services and

12/ Administration Letter 509.

benefits that could not be definitely granted or obtained. In the opinion of most supervisors, these explanations and the extent to which they were understood by the families, often meant the difference between success and failure in attaining objectives.

Isolation, poverty, and exploitation had made many of these families cautious in dealing with strangers. Their fear of unpleasantness, of personal inadequacy, of meeting new situations, and other emotional difficulties made hard the task of winning their confidence and leading them to believe that the supervisors could understand their problems. Genuine sympathy, tact, interest, as well as the use of knowledge were essential to securing a flow of ideas and a synthesis of thoughts.

Before starting a plan for the farm and home an inventory of the family's resources was made by using a schedule. This information gave the supervisors a fairly complete picture of the family's past performances, economic resources, occupational experience, health status, extent of participation in social and educational activities, and other indications of their living.

The development of farm and home plans was a family affair in which all took part. This usually covered several days, with intervening time allowed for the family to work out for themselves, step by step, the necessary information and planning. Care was taken to draw the family out, with the idea of having them recognize their problems and understand themselves better. Freedom of expression was encouraged and the different angles of approach the family had thought of were considered; new ones were suggested and weighed with the family. This was continued until the family reached a conclusion that the supervisors could support.

This method, largely constructive, took considerable time, but according to the supervisors it paid big dividends in terms of achievements. The supervisors maintain that the degree of success in carrying out plans was determined primarily by the extent to which the families took part in making the plans. Inquiry brought to light the fact that limited progress was made in cases where supervisors had dominated the planning and failed to consider the family's personal preferences and to discover something of particular interest to the family around which the plan could be built.

The importance of planning within the family's ability to carry out has been stressed by most supervisors. They maintain it is much better to plan too little than too much.

To implement rehabilitation, individual differences in needs, personalities, natural resources, and status of development were taken into account in deciding upon a highly individualized approach and follow-up. As self-recognized success appeared to be a necessary ingredient in rehabilitation, some individual family goals had to be set that could be attained in a comparatively short time. It was necessary to explore every practical method and device to discover ways of assuring each family a safe footing in their struggle for advancement.

Each phase of the program called for the goals to be attained, the circumstances that would create the problems involved in reaching each goal, and proposed plans to be followed in achieving the goals as set up. This was the "what" part of the program.

To organize the "when" and "how much" part, a calendar of work was set up to show the periods when each phase would be given (1) concerted effort, (2) emphasis, (3) regular attention, and (4) the number of cases needing assistance in each phase of the program -- the number of cases to be based on an anticipated total of 50 families.

A "Cooperation and Assistance Request Chart" was drawn up showing the personnel, agencies, and community resources from which cooperation would be requested, the activity with which each would be concerned, and the time when such assistance would be needed.

Activity check sheets were used in a work notebook by each supervisor to keep a simplified running record and to provide a summary of "what" work was to be done, "when" it was accomplished, and "how much" had been achieved in a given period.

Carrying out a rounded subsistence program involved teaching proper care of animals and methods of curing and caring for home-produced meats; giving instructions in making butter and cheese, preservation of eggs for home use, proper methods of canning and storing fruits and vegetables, planning and preparing balanced meals, and making and renovating clothing from elementary work to tailored garments. Families had to be shown how to paper rooms, paint woodwork and furniture, patch plaster, build chimneys, shelves, cupboards, and frames for screens, remodel rooms, and install new windows and wallboard. They had to be shown efficient cleaning methods and taught to make soap from surplus fat. They had to be guided in the building of barns, silos, range shelters, corn cribs, and ice, milk, poultry, and storage houses. They had to learn to make minor repairs. Directions were furnished regarding the installation of water and sanitary drainages, and soil conservation practices, with training in feeding methods, rotation of crops, pest control, and improved breeding methods.

Before that it had been necessary to give them a good start by guiding them in the selection of livestock, seed, fertilizer, and equipment. It was difficult for them to recognize a good cow or hog because they had never owned one. Finally, indirect leadership had to be furnished in organizing cooperative services and in carrying out educational and social group activities.

To improve families' abilities and as a means of measuring progress, they were asked to keep records of their income, expenditures, production, and other farm and home activities. Each family was given a record book and taught how to keep it. This was a concrete way of teaching them how to budget their income and it helped them to realize for the first time how much the farm could contribute to family living.

Aside from individual instruction and guidance given to families during the home visits, group meetings were held by the supervisors from time

to time, to make plans for the next crop year, evaluate past activities, learn new skills, and organize cooperative enterprises.

In addition to guidance these families needed financial aid -- one without the other was not enough. To get started they needed money to live on as well as to buy equipment, livestock, and other items. Their resources and income were too limited to allow the repayment of a loan large enough to take care of their many pressing needs.

The supervisors soon found more flexible loan and grant procedure was needed/than among those who could qualify for aid under the standard loan program. It was usually necessary to build up the resources of these families through the use of grants before they could be expected to repay even a small loan.

During the 4-year period each of the 606 families received an average of $520 grants and an average of $740 in loans.

In making loans care was taken in most cases to keep them within the family's ability to repay. This usually meant making small loans to begin with, and planning for a supplemental loan after the family's resources had been so built up that they could undertake to make payments on an additional loan.

A study of the methods used in implementing rehabilitation among these families reveals that numerous techniques were used by the supervisors to establish a common ground of interest between themselves and the families. This step was essential to winning the confidence and cooperation of the family. A method that worked in one case was not necessarily successful in another.

It was the aim of all supervisors and personnel working with these families to help them toward self-support and to provide opportunities through increased capacities and resources for greater participation in our democracy. The point at which the supervisors and other personnel began to diverge in their thinking was reached when they began to formulate methods and means by which the ultimate goal could be reached.

Achievements of families.- In trying to make any appraisal of achievements, the low level from which these families made their initial start must be kept in mind. The ills of such disadvantaged families cannot be cured overnight. Even after the correct treatment is discovered or worked out, it takes time to get results. And this experiment covered a period of only 4 years.

Progress made by these families during this period was not spectacular in any particular. But to the people as individuals the things they accomplished meant a lot.

In the beginning less than half of the families had a garden and the average number of quarts of food canned per family was only 167. By 1942, all the families had a garden and the average number of quarts canned per family was 413 -- an increase of 146 percent.

Similar gains were made in producing livestock and poultry for home use. And cash income from sales from crops and livestock on the average, had far more than doubled, to bring the gross cash income from all sources to an average of $738.

Other improvements were noticeable by 1942. The average net worth of the families had increased by 63 percent, being up to $1,124. Living on the same farm more than a year was a new and satisfying experience for many families who were renters or sharecroppers before. Instead of oral 1-year leases most of the families now renting land had written leases covering 1 to 5 years. Farm expenses had been reduced by saving certain seeds instead of buying them each year. More and better feed had been grown for livestock. The total average acreage in farms had increased by slightly more than one-fourth. Land had been improved.

Deplorable housing conditions prevalent among these families in the beginning were improved. Worthwhile savings were made through the use of native materials and once-idle family labor. For example, 1 family built a 5-room house with a brick chimney for only $700; a construction engineer estimated the value of this house to be $2,000. Hired labor was used only 1 day but 7 days' help was obtained by exchanging labor with neighbors. Native logs were sawed at a local mill where the sawing bill could be paid with lumber. Formerly a majority of the families did not have a safe supply of drinking water, their homes were unscreened, and if they had toilets, they were of an unsanitary type. By 1942 most of the families had a safe supply of drinking water, screened homes, and sanitary toilets.

Many of the families formerly were unable to have a doctor at the birth of a child. Minor ailments had developed into chronic cases. But by 1942, more than half (56 percent) were participating in medical programs. And health conditions in general had been improved through better diets, better housing and better sanitation facilities, and better medical and dental care.

Group meetings and discussion groups were effectively used in spreading information and stimulating interest in organizing cooperative services. By 1942, 400 of the families had become members of one or more cooperative services other than health.

As families increased their income and property, improved their way of living, and contributed food and manpower to a Nation at war, their place in the community changed. They came to be recognized as functioning members and perhaps even potential leaders. This change, which cannot be evaluated in dollars and cents, has been a powerful force in the rehabilitation of these families.

The project has revealed certain lessons as to supervisory methods best adapted to help families at the lower economic levels. They are included in some of the generalizations in other parts of the report. Unfortunately the anticipated experimental conditions were not maintained in all counties throughout the project so its full potentialities were not achieved. In addition to the lessons that were learned, however, as to supervisory tools and techniques and

other methods, attention was drawn to the limitations upon rehabilitation imposed by such factors as lack of sufficient land, poor health, poor public schools, isolation, and the effects of several generations of deprivation.

Special Area Programs

During 1941 and early 1942 several of what were termed "special area" programs were authorized in what were considered problem rural areas, wherein the families needed more assistance than supplied by the standard program. The primary basis of attack, rather than the intensive supervision of the noncommercial project, was adjustment in land use, tenure, housing, farm reorganization, marketing and other social and economic changes necessary in the local area and which were espected to develop cumulatively on a broad scale for a period of time. 13/

The program was started in the following areas: Aroostook County, Me.; Ridge area of St. Mary's County, Md.; central Wisconsin light soil area including Adams, Juneau, Portage and Waushara Counties; Chequamegan five county area in Wisconsin including Ashland, Bayfield, Price, Sawyer and Taylor Counties; "Twin Rehabilitation" area of southern Indiana including Crawford, Harrison, Orange, Perry, and Washington Counties; Laurel Ranger District in McCreary County, Ky.; Heard County, Ga.; Uinta Basin of Utah, comprised of Duchesne and Uinta Counties; Lewis County, Wash.; and a New Mexico special area including Bernalillo, Guadalupe, Mora, Rio Arriba, San Duval, Santa Fe, San Miguel, Taos, Torrence, and eastern Valencia Counties.

Initiation of those projects was followed quickly by wartime adjustments such as the Food-for-Freedom loan program and concentration upon production problems, by a reduction in grant funds, and by reduction in supervisory personnel. In some instances the setting up of the area program was hampered. In all cases activities were reduced about a year later and finally the special area program was eliminated. Annual reports from the areas covering the first year's work indicated a wide range of activity benefiting the families.

Southeastern Missouri Project

Seven counties in southeastern Missouri have been the locale of a program which FSA has referred to as "a laboratory for the cotton South," in which practically every available rehabilitation tool and technique has been extensively used to solve the problems of the landless sharecroppers and farm laborers. Many families have received standard loans and standard borrowers have benefited from the special measures adopted.

The 7 counties — Butler, Dunklin, Mississippi, New Madrid, Pemiscot, Scott, and Stoddard — in the "bootheel" of Missouri, belong economically to the South. Cotton, the chief cash crop, is largely produced by tenants and sharecroppers under a plantation system. The problems of this area have grown up within the span of a single generation, for it has been during the last 30 years that the land

13/ Administration Letters 364 and 509.

...s been converted from forest-covered swamp to cotton plantations. The entire area has been characterized as one of "rich land and poor people." 14/

Public attention first centered on these "bootheel" counties when about 70 plantation owners decided to change from the sharecropping system to day labor. 15/ In January 1940 when notices to move were received, several hundred members of sharecropper families lived and demonstrated on 2 public highways for several days. This demonstration was ended when the families were moved into camps, went elsewhere to try to find work, or were taken back on farms but Nation-wide attention was thus attracted to this area.

To avert another threatened critical situation a year later the Governor of Missouri, Lloyd C. Stark, appointed a special committee to work out a plan for these counties. This committee included landowners, workers, and representatives of State and Federal agencies. Out of the work of the committee grew the Farm Security Administration's agreement to undertake a five-point program in the area as follows: 16/ (1) Step up the number of rehabilitation loans for small farm operators, (2) conduct a labor rehabilitation program, (3) construct scattered labor homes, (4) build group labor homes, and (5) develop land leasing and purchasing associations. (A settlement project at LaForge in New Madrid County had already been started in 1936. 17/)

Under this intensified program the number of standard rural rehabilitation borrowers was increased during the first year from about 1,000 to approximately 2,000 under the usual eligibility requirements. In addition to the regular loans, special real estate loans of less than $1,000 were made available to small owners in newly cleared areas to refinance their equities in the land. During the first year 65 such special real estate loans were made.

The labor rehabilitation program, or second phase, started with families all certified as being on relief or eligible for relief. By 1943 it had taken on 1,758 families. This phase of the program was intended

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14/ M. R. White, Douglas Ensminger, and C. L. Gregory, Rich Land-Poor People, Farm Security Administration, Region III Research Report No. 1, Indianapolis, 1938. This report describes social and economic conditions. See also Charles S. Hoffman and Virgil L. Bankson, "Crisis in Missouri's Boot Heel," Land Policy Review, Vol. III No. 1 (Jan.-Feb., 1940), pp. 1-14.

15/ Southeast Missouri: A Laboratory for the Cotton South, Farm Security Administration, Washington, Dec. 30, 1940. See also Philip Brown, "Farm Labor in Southeast Missouri," Bureau of Agricultural Economics. Agricultural Situation, 34(4):11-13, April 1940; Marion Neprud, "A Bootstrap Opportunity," Farm Security Administration, Washington, 1940. 6 pages; Constance E. H. Daniel, The Missouri Boot-Heel, Farm Security Administration, Washington, 1940.

16/ Ibid, and Hearings...Pursuant to H. Res. 119, part 2, p. 689-727.

17/ See Hearings, op.cit., part 3, p. 1075-1076; also Stuart Chase, "From the Lower Depths," Reader's Digest, May 1941 (condensed from Free America, April 1941).

to cut down relief costs constructively (a) by enabling farm labor families to raise their subsistence during slack periods and (b) by providing a stable labor supply that would be available during the cotton chopping and picking seasons.

This latter objective was in line with the general purpose, among others, of trying to get a self-contained labor supply in Southeast Missouri. These families on this phase of the program were not tenants or sharecroppers but were habitually employed as farm laborers. They were living on someone else's land. Landlords cooperated in the program by letting the families use empty tenant houses, garden plots, and about 3 acres of land rent-free for cow pastures. On the basis of simple home plans FSA then made grants averaging about $40 the first year to buy garden seed, simple tools, canning equipment, and other items needed to develop home production of food. In return for the grants, families agreed to build food-storage cellars, fix privies and wells, and improve their homes. Grants were disbursed through an association of recipients, rather than directly by the families. 18/ About 800 laborer-families were made loans averaging about $70 each to buy milk cows.

The third phase, scattered labor homes, involved building dwellings for 337 cropper families on sites donated rent free for 10 years by cooperating landlords. These 3-room houses cost about $500 each. They were built on private land through landlord cooperation in the following ways:

1. A landlord might lease the laborer 3 acres, rent free, for 10 years and contribute $350 toward the construction of the cottage. The farm laborer contributed $150, advanced as a grant by FSA toward the cost of the house, which was built by the landlord according to FSA specifications. At the end of 10 years, the cottage and land go back to the landlord.

2. Under another arrangement, the landlord leased the laborer 10 acres of cut-over land, rent free, for 10 years and the laborer repaid the entire FSA advance on the cottage. At the end of 10 years, the landlord gets the house and the cleared land.

3. Finally, the landlord may furnish the laborer, rent free for a 10-year period, 3 acres for the home site and garden plus 2 cotton acres, or 4 cotton acres on a share-crop basis. In this case, the farm laborer receives a loan for $350 for the construction of the house. His income from the cotton acres is expected to pay off his FSA loan over a 10-year period. At the end of that time, the house reverts to the landlord.

Each of these 337 cropper families were also made small loans to buy a cow and grants for garden seed and equipment and materials to build a sanitary privy and a cow barn.

In contrast to the scattered labor homes were the group developments which have been referred to as Delmo Homes -- the fourth phase of the program. These were built for part-time workers, rather than for

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18/ John M. Brewster to Oris V. Wells, Bureau of Agricultural Economics, Aug. 24, 1940.

regular farm laborers, and were located near small towns on 1,512 acres bought by FSA. The homes were located at 10 sites near 7 different communities in groups varying from 30 to 80. A total of 580 houses at an average cost of $1,455 were built. Some subsistence elements were involved through provision of 2 acres for gardens for each family and the use of a common pasture. As the homes were owned by the Federal Government and located on Federally-owned land each family paid rent of about $4 a month. Loans were made for cows.

One land-purchasing and two land-leasing associations were developed to acquire more land for family-type farms in an effort to obtain land and security of tenure for operators who could not otherwise get a farm. A land purchasing association known as Security Farms, Inc., composed of former sharecroppers or tenants, was organized in May 1940 by 260 families. This association received a 40-year loan of $730,897 at 3 percent interest from the Farm Security Administration for the purchase and development of 16,683 acres of land. Most of this land was cut-over timber which was to be subdivided into individual family type farms although at first land was to be subleased to members through the development period. In addition to the association loans, each individual family was to receive a standard rehabilitation loan and farm and home supervision. As of the summer of 1943, 153 families were on their farms and carrying on full-time farming operations. Development work was curtailed by the war.

The 2 land leasing associations, Independence Farms and Portage Farms, together had 81 members as of December 31, 1942 and at that time rented 4,638 acres of land on a 7-year lease. These associations, like other land leasing associations, were arrangements whereby FSA made a loan to a group of farmers so the group could pay rent in cash 1 year in advance. The association then acted as a landlord, subrenting the land to the members. Members of the associations also had rehabilitation loans. The customary supervision was exercised by FSA personnel, including farm and home planning and joint bank accounts.

To help meet the health problems of the area, physical examinations of 843 families were made in 1941. 19/ The Southeast Missouri Health Services Program began operations on January 1, 1943 in 6 of the counties to provide medical, dental, and hospital care along the cooperative lines established in other counties. In addition, FSA provided funds for special health services such as (a) the handling of correctable preexisting chronic physical conditions; (b) correction of accumulated dental defects among school age children, and (c) a nursing program for health educational work. Special equipment, including 2 dental trailers, were supplied by the agency. The environmental sanitation program started in 1939 in Pemiscot County was expanded to the other 6. Following the curtailment of WPA and NYA assistance, self-help groups were organized to prefabricate and install the sanitary facilities.

Results.- In the absence of any complete study of the Southeast Missouri project, it is impossible to say how much progress has been achieved in realizing the three broad objectives of Governor Stark's committee, namely, getting a self-contained labor supply in the area, getting displaced

19/ Lively, op.cit., and Lively and Lionberger, op.cit.

farmers to operating for themselves, and increasing the income of day laborers by an intensive live-at-home program. The war period has affected both the development of the program and the need for it. The FSA regional director reports that many families have left the area and those remaining moved into better houses and are getting more money for their work. 20/

At the close of 1943, a total of 534 families were reported in Delmo labor homes and 4,322 families were participating in all other aspects of the FSA program in the 7 counties.

Some of the costs of carrying on the program are indicated by grants of about $400,000 between July 1, 1939 and June 30, 1942; however, before June 1939, grants of about $600,000 had been made. Loans of about $2,700,000 were advanced until the spring of 1943, including advances made before the special program was begun. Repayments totaled $1,439,000 in principal and $141,000 in interest by 1943. All the activities were carried on with relatively intensive supervision.

The most noticeable effect of the program on the people in the area is reported to be on their favorable attitudes toward gardens and a live-at-home program. At the end of the first year, the families in the labor rehabilitation phase had slightly exceeded the average of 80 quarts of canned food per person set as a quota in the "live-at-home" effort.

Through the sanitation program 1,599 sanitary privies were installed, 494 water supplies improved, and 486 houses screened. In addition, twice as many sanitary privies were built on non-FSA as on FSA farms, often by landlords.

The scattered labor homes program was considered beneficial by people within the area as setting a pattern for housing laborer families on a higher standard. Of the 276 loans totaling $96,000 for such dwellings. nearly $71,000 of the principal had been repaid by October 23, 1944. In the 173 cases where landlords obtained the loan there was virtually no delinquency and in the 103 cases where tenants obtained the loan only 12 percent of the matured principal was delinquent. With a long-term loan at low interest for the construction of these houses, it appears that no grant would be needed to get them built.

The Delmo Labor homes have not been satisfactory to the people in the area although they relieved a congested housing situation at the time. Transporting workers to the farm where they are to work is not locally acceptable.

Families moved up to tenant from the laborer or sharecropper level as a result of the land-leasing associations. In addition, the associations were completely successful from the financial standpoint, both repaying their loans in full. However, 1 association of 46 families

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20/ Stephen C. Hughes, Regional Director, FSA Region III, to Olaf F. Larson, Jan. 29, 1945.

was liquidated after paying back its loan and the other planned to discontinue operation and have individual operators lease direct from the landowner. Experience indicates a need for a lease of longer than 5 years in order to get the family farm pattern established and to provide more permanent improvements on individual units.

Because the war stopped construction, Security Farms never operated in the way planned.

"Grubstake," Special Real Estate, and Farm and Home Improvement Program

The farm enlargement and farm development loans, included at the beginning of the 1943 fiscal year as a part of the farm ownership program, had their antecedents in small-scale experiments previously initiated in limited areas to help owners who were insecure on their farms. Although the case of tenants and sharecroppers provided the most striking demonstration of insecurity, it became apparent that owners who were heavily mortgaged, with farms too small, with poorly developed farms, or with insufficient improvements, had problems of equal importance.

Grubstake Program in Minnesota.- The first experimental approach to this situation was started in 1935 by the Minnesota State Rehabilitation Corporation. Frequently, for lack of a better name, this activity was referred to as the Grubstake Program. This was confined to the cut-over area of Minnesota and continued through 1938.

Much of the land in the cut-over area of this State, owned by lumber interests, had been sold under purchase-contract agreement to families. These tracts varied in size, but usually were 40 acres. Repossessions occurred frequently, and each time the lumber interests profited by additional acreages on their land having been cleared and developed. The Grubstake Program was inaugurated to assist these small farm owners to acquire additional land contiguous or readily accessible to their farms so they could better round out their units and to assist them in constructing adequate and serviceable farmsteads from materials on their farms at a minimum cost to themselves as well as to the Government. Local carpenters skilled in construction from materials at hand -- that is, logs, rock and gravel -- were employed to supervise the actual construction of necessary farm buildings, the labor for which was supplied mostly by the farmer operator and family members. Houses and barns costing not more than $200 to $300 in actual cash outlay often were constructed. Observers reported that these units compared favorably with those constructed under contract at a cost of 6 or 7 times as much.

Most of the Grubstake loans were from State corporation funds. They were made for up to a 20-year period and at an interest rate of 4 percent. There were no upper limits as to the size of loan. The production-value appraisal of the unit for which money was to be borrowed was used to determine the size of loan that could be made. The security consisted of the real estate and improvements financed. Supervision and farm and home planning accompanied the loans. The families were considered standard cases but regional officials believe they received more than usual supervision.

Approximately $420,000 in Corporation funds was loaned to about 250 families. 21/ Some FSA funds were used for chattel loans. Altogether the average size of loan for all purposes was about $1,900.

Problems encountered were due to the fact that (1) some of the families were old and physically unable to do the necessary work, (2) progress was slow and in some cases the debt became too high before the family was able to develop its unit sufficiently to bring in even moderate incomes, and (3) some buildings constructed were inadequate.

The program as a whole was judged, by regional personnel, to be only moderately successful for families made such slow progress that debts became too high and the rehabilitation period was considered too drawn out. However, forest area counties were saved money by the elimination of isolated farms and the program demonstrated that families in the area, if given certain help, could rehabilitate themselves without grants of any kind.

Special Real Estate Program for Small Owners.- 22/ The first formalized loan program for the small owner as a part of rehabilitation was the Special Real Estate (SRE) program begun in June 1939, 23/ and continued until January 1942. It was important, not because it solved the problem, but because it was the formal beginning of a "trial and error" attack. Its primary emphasis was on loans to individual farmers who recently had lost or were about to lose their farms through foreclosure, in order that they might finance, refinance, redeem, or repurchase their farms; but even in the beginning it was possible to use a part of the SRE loan for land improvements. These loans were authorized by the FSA Administrator as part of a special area program in special-problem areas and were instituted wherever land adjustment was a factor in the rehabilitation of families. In practice, such loans were most numerous in the cut-over area of the Great Lakes States and in Region VIII (Texas and Oklahoma).

Usually, preference was given to standard rural rehabilitation clients and to those farmers who, except for the insecurity of their land tenure, might qualify as standard borrowers. Preference was also given to farmers for whom debt adjustments could be obtained but an equity of sufficient amount to preclude debt adjustment did not prohibit making a loan to an applicant.

In line with the general objectives of establishing security of tenure and making necessary physical adjustments on family-type farms, the SRE loans could be made (1) to buy adjoining acres necessary to round out an economic family-type unit; (2) to buy a headquarters ranching unit where the unit was rounded out by long-term leases on surrounding grazing land; (3) to refinance existing real estate mortgages, land-purchasing contracts, tax liens, assessment liens, and judgment liens where such debts were adjusted within the ability of the farm unit to pay on-

21/ Letter, Harry S. Muir, Regional Director, FSA Region II, to Olaf F. Larson, Dec. 20, 1944.
22/ Also discussed in Horton, Larsen, and Wall, op.cit., pp. 139-140.
23/ Provision was made as of Dec. 1, 1938 for authorizing 10-year instead of 5-year loans, when needed, for clearing land.

farms where improvements and physical adjustments were necessary; the refinancing enabled the Farm Security Administration to take first-mortgage security; (4) to buy economic farm units for the relocation of occasional client families from submarginal or otherwise inadequate land in the special problem area; (5) to buy materials and equipment necessary for construction and repair of farm buildings, farm roads, and farm fences on individual farms or ranching units being bought or refinanced with an SRE loan; (6) to buy materials and hire equipment for land development and soil improvement, such as stump pulling, basic phosphate and lime treatments, initial seeding and soil-building crops, setting farm-family orchards, drainage, terracing, contouring or erosion control; and (7) to buy materials and equipment for improvement and repair of housing units.

During the first year funds for these special loans were obtained from the Emergency Relief Appropriation Act of 1938 and from State rural rehabilitation trust funds. For the fiscal year 1939-40, $1,934,500 was budgeted for this loan activity. Beginning with the 1940-41 fiscal year funds were obtained by borrowings from the Reconstruction Finance Corporation.

The SRE loans were made at an interest rate of 3 percent. They (1) were to be repaid on the basis of equal annual payments equivalent to the customary landlord's share of the farm income under normal conditions and with normal prices or (2) could be amortized over a period not to exceed 40 years. Typically loans were for 15, 25, or 40 years. Generally little more than interest was to be repaid during the first 5 years. The amount of special real estate loans was first limited to $1,000 or to the appraised value of the farm, whichever was lower, and was to be secured by a first mortgage or a deed of trust. Experience indicated that real farm development required larger loans, so the upper limit of $1,000 on SRE loans was raised to $1,500 in 1940 and to $2,500 in 1941.

Each borrower was required to deposit in a controlled bank account funds to be used for repairs and minor new construction. The county supervisor was responsible for checking the work being done and for countersigning the checks. The borrower also was required to maintain a trust account for paying taxes, insurance and installments on the loan. Moreover, the borrower agreed to keep prescribed records and accounts and to make them available for review upon request by officials of the Farm Security Administration.

Farm and Home Improvement Program.- Originally the SRE program was confined to the special areas but FSA field workers requested its extension, recognizing it as an important tool for aiding farm families in developing family-type farms. On the basis of the SRE experience, in January 1942 a broader farm development and enlargement program known as the Farm and Home Improvement program (FHI) was outlined and authorized. 24/ Although more widely available than the SRE, the new FHI program was still limited to areas where rural poverty was chronic and directly related to the problem of underdeveloped or inadequate farms. Loans could be made to buy additional land to round out economic

24/ FSA Instruction 735.1, Jan. 9, 1942.

units, to provide housing and needed farm improvements, and to buy materials for soil improvement, drainage, or clearing. FHI loans were supplemented by other FSA techniques such as operating loans, farm and home management guidance, debt adjustment, cooperatives, and health associations, and even grants in some cases. The maximum size was raised to $3,500 in January 1942. However, within this limit the size of loan was set by the amount of income from the farm available for paying interest and principal on the real estate debt as determined by the farm and home plan.

Recognition was given to the problem of the tenant whose rehabilitation and production were hindered by the landlord's effort to collect rent on an inadequate farm unit. Within certain limitations, FHI loans could be made to landlords for farm enlargement and development. Usually when this was done, a long-term lease for the tenant was part of the bargain. The FHI, like the SRE program, had limited funds budgeted. It had been operative only 6 months when, as of the beginning of the 1942-43 fiscal year, it became a part of the enlarged farm-ownership program which also included the regular Tenant Purchase activities.

Results of SRE and FHI Loans.- The SRE program was rather slow in getting under way. From June 1939, when it was authorized, through April 30, 1940, only 164 loans had been approved. These were distributed among 12 States, although two-thirds were in Missouri of Region III and Oklahoma and Texas of Region VIII. During the next 2 months of the fiscal year ending June 30, 1940 an additional 451 loans were made, virtually all in Regions III and VIII (table 16).

In the next fiscal year, 1940-41, Region II including the Great Lakes cut-over territory, made three-fourths of the Nation's 863 loans. In Regions III and VIII few loans were made because difficulties had been encountered with loans being overused for refinancing the small owner on an uneconomic unit. The effect of the loan had been to bail out the mortgage holder and to freeze the family to an uneconomic unit on which it had already failed. Lending policies were therefore shifted to emphasize the development of land and improvements with refinancing only an incidental part of the program.

During the fiscal year ending June 30, 1942 a total of 2,117 SRE and FHI loans were made, Region II again being far in front of other localities in the use of this special program.

The average size of loans increased as the shift was made to farm development and as the $1,000 loan limit was lifted. During the 2-1/2 years' experience with these trial programs, the 3,595 loans averaged $961 but ranged from a low of $165 in the northeastern States, Region I, where few loans were made, up to $1,436 in Region II where the program was most used. Region V in the South and Region XI in the Pacific Northwest with a cut-over problem, also had loans in excess of $1,000, averaging $1,336 and $1,206, respectively.

Experience in Region II indicated the need for the larger loans if families were to be substantially aided. The program is particularly adapted to families operating uneconomic units or who have been the victim of unfavorable purchase contracts.